Report of the AUDITOR GENERAL to the Legislative Assembly

Prince Edward Island **2002**

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INTRODUCTION

REPORT OVERVIEW

The Auditor General is required, under the Audit Act, to report annually to the Legislative Assembly. Observations, recommendations and information pertaining to the audits and examinations of government operations conducted by the Office during the year are contained in this, my Annual Report 2002. This report is intended to assist the Legislative Assembly in carrying out its responsibility to hold the government accountable for the management of public resources.

My Annual Report 2002 deals mainly with matters pertaining to the 2000-2001 fiscal year, however many of the issues identified remain current and are still being addressed by government.

Each year, a large portion of our audit work is determined by statutory requirements where I am named auditor. In addition we annually audit the Public Accounts of the Province. The remainder of our resources are devoted to special audits and examinations. It is not possible to audit all government programs and entities each year, however I strive to obtain reasonable audit coverage on a cyclical basis.

As in previous years, my report includes information on the **Province's Finances**. The section on **Special Audits and Examinations** summarizes the results of various examinations conducted during the year including; Golf Course and Academy Purchase, PEI Business Development Inc. Grants and Contributions, Loans Under the Immigrant Investor Program, Accommodations, Employment Development Agency, Cash Management, Evergreen Technology Asset Management Program, Claims Processing System for Physician Payments, and Health Informatics. The **Financial Statement Audits** section provides information on significant issues arising from the financial statement audits conducted by the Office.

Each year we contact departments and agencies to obtain follow-up information on the status of any outstanding recommendations from previous years. This information is included in a separate section of the Annual Report, **Update on Previous Recommendations.**

The **Standing Committee on Public Accounts** reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the role of this Committee, and its proceedings during the past year, is provided in a separate section of the report.

The section on the **Office of the Auditor General** provides information on the mission and mandate of the Office; the responsibilities of the Auditor General; the operating philosophy of the Office; Office personnel, administration, and affiliations; and the objectives and accomplishments of the Office.

ACKNOWLEDGEMENTS

Cooperation from Ministers, Deputy Ministers, Heads of Crown agencies, and their staff is important for the Office to effectively carry out its work. We have received full cooperation in completing the audits covered in this Annual Report.

In addition, I would like to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my Office.

Finally, I wish to express my appreciation to the staff of my Office for their professionalism, dedicated effort and commitment.

1. THE PROVINCE'S FINANCES

OVERALL COMMENTS

1.1 Each year we comment on the Province's finances. The financial position of the Province for the most recent fiscal year is discussed and compared over a five year period. To assess the financial condition of the Province it is necessary to focus on the financial results in the Consolidated (Summary) Financial Statements.

1.2 The 2000-01 fiscal year provided financial results which were a sharp reversal from the previous year. The Province incurred a deficit of $34.9 million in 2000-01 compared to a surplus of $12.4 million in 1999-2000. Interest charges on the Province's debt increased by $5.1 million to $107.8 million and federal government transfers accounted for 40 percent of our revenues.

1.3 On the positive side, in the last year the Provincial gross domestic product increased by 7 percent while the net debt increased at a slower rate of 3 percent. This contributed to Prince Edward Island maintaining the most favourable net debt to GDP ratio of the Atlantic provinces.

1.4 However, the reality remains that the Province incurred a deficit of $34.9 million in 2000-01 and a substantial deficit is projected for 2001-02.

BACKGROUND

1.5 The Public Accounts record the Province's financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The statements combine the financial activities of many diverse government programs and entities with total expenditures of almost $1 billion.

1.6 As in previous years, we are providing information to help put the numbers in perspective. The presentation is made in a format that focuses on key information to assist the Legislature and the public in obtaining a better understanding of the Province's financial condition.

Because the Province's finances have a significant impact on the Provincial economy, it is essential that Members of the Legislature are provided with information to enable them to understand and debate the financial affairs of the Province.

1.7 This discussion of the Province's finances is based on the Consolidated (Summary) Financial Statements, which include departments, the Special Projects Fund, Crown corporations, regional health authorities, school boards, and other organizations which are part of the overall government reporting entity.

FINANCIAL MEASURES

1.8 Some of the common terms used to describe the Province's financial condition are presented below.

1.9 The **annual surplus or deficit** is the difference between a government's revenues and expenditures. This measure shows the extent to which revenues raised in the year were sufficient to meet expenditures in that year. For the year ended March 31, 2001, the Province incurred a deficit of $34.9 million.

1.10 The **total debt** is the amount owed by the government. Government's debt includes outstanding debentures, pension obligations, and other accounts payable. The total debt of the Province as of March 31, 2001 was $1.7 billion.

1.11 **Financial assets** are cash and other assets convertible to cash which could provide resources to pay liabilities or finance future operations. Total financial assets at March 31, 2001 were $651 million.

1.12 The **net debt** is equal to the difference between the government's total liabilities and its financial assets. The net debt of the Province as of March 31, 2001 was $1.045 billion.

1.13 The **interest charged on the debt** is the amount required to service the debt and must be taken from revenues before any expenditures can be made on government programs. The interest charges on the debt for the year ended March 31, 2001 were $107.8 million, an increase of $5.1 million from the previous year.

1.14 The **gross domestic product (GDP)** is a measure of the value of the goods and services produced in the Province in a year. The Province's GDP is measured and reported by Statistics Canada.

1.15 **Exhibit 1.1** shows a summary of some key financial measures for the Province over the past five years.

EXHIBIT 1.1
PROVINCE OF PRINCE EDWARD ISLAND
SUMMARY FINANCIAL INFORMATION
(Millions)

	2001	2000	1999	1998	1997
Surplus (Deficit)	**$ (34.9)**	$ 12.4	$ 28.1	$ (6.3)	$ (11.0)
Net Debt	**1044.8**	1009.9	993.8	1021.9	1015.6
Debt Charges	**107.8**	102.7	101.4	101.9	115.5
GDP	**3,344**	3,115	2,979	2,808	2,829

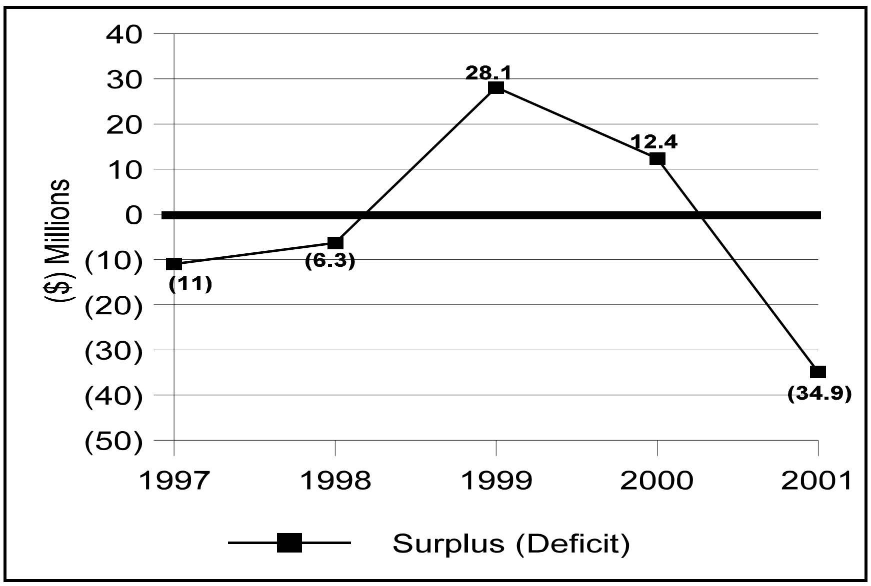
1.16 Over the past few years we have reported on certain key indicators of government's finances. These have been defined in the Research Report entitled, *Indicators of Government Financial Condition* published by the Canadian Institute of Chartered Accountants. The indicators are categorized as sustainability, flexibility and vulnerability. The trends in these indicators provide useful information to assess the financial condition of the Province.

Sustainability

1.17 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy. A comparison of the government's annual surplus or deficit, net debt and the Provincial GDP provides insight into the sustainability of a government's practices of incurring expenditures and generating revenues.

1.18 The annual deficit or surplus indicates the extent to which a government spends more or less than what it raised in revenue in a particular year. It basically shows whether Government is living within its means. **Exhibit 1.2** shows the annual surplus or deficit for each of the past five years.

EXHIBIT 1.2
THE GOVERNMENT'S ANNUAL SURPLUS/DEFICIT

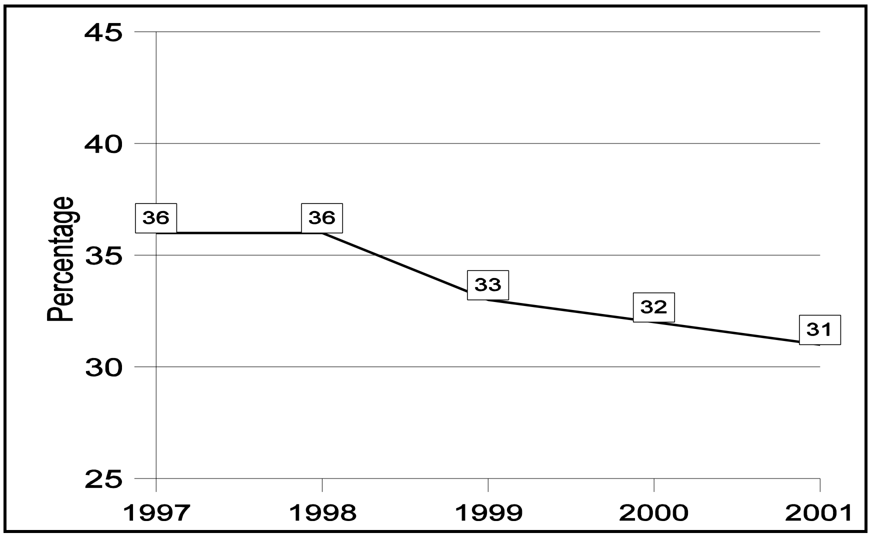


1.19 The net debt is the difference between Government's total liabilities and its financial assets. Since 1997 the net debt increased by 3 percent to $1.045 billion at March 31, 2001.

1.20 The GDP of the Province indicates the size of our economy. The Province's economy supports government operations through taxes and fees. Prince Edward Island has experienced steady growth in the economy in recent years. While the net debt has increased by 3 percent since 1997, the GDP of the Province increased by 18 percent during the same period.

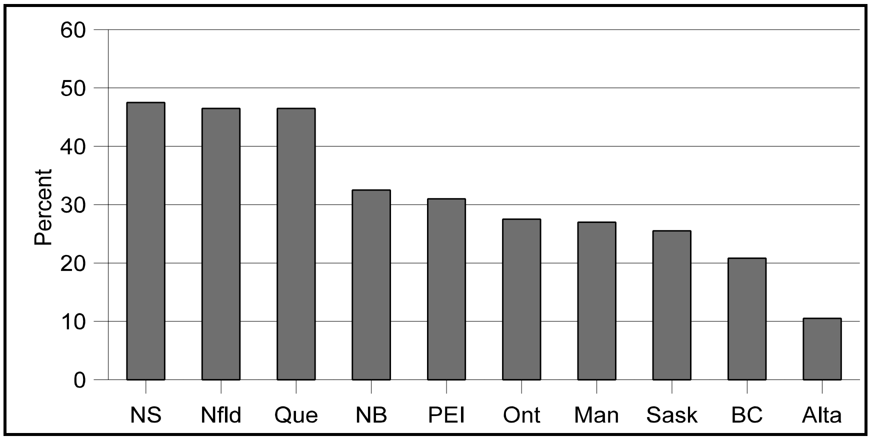
1.21 **Exhibit 1.3** shows the net debt to GDP ratios since 1997. Even though, in 2000-01, the Province incurred a deficit of $34.9 million and the net debt increased, the economy has continued to grow and the net debt to GDP ratio has been declining.

EXHIBIT 1.3
NET DEBT AS A PERCENT OF GDP



1.22 To help put this information in perspective, it is useful to compare our net debt to GDP ratio with other provinces. The Ministry of Finance for British Columbia provided the information in **Exhibit 1.4** in its *Debt Statistics* report for the fiscal year 2000-2001. The information is adjusted for interprovincial comparison and is presented on a different basis than our Public Accounts. However, it does provide a basis for assessment relative to the other provinces.

EXHIBIT 1.4
INTERPROVINCIAL COMPARISON OF TAXPAYER SUPPORTED NET DEBT AS PERCENT OF GDP AS AT MARCH 31, 2001*



*** Source: Moody's Investors Service; May 2001.**

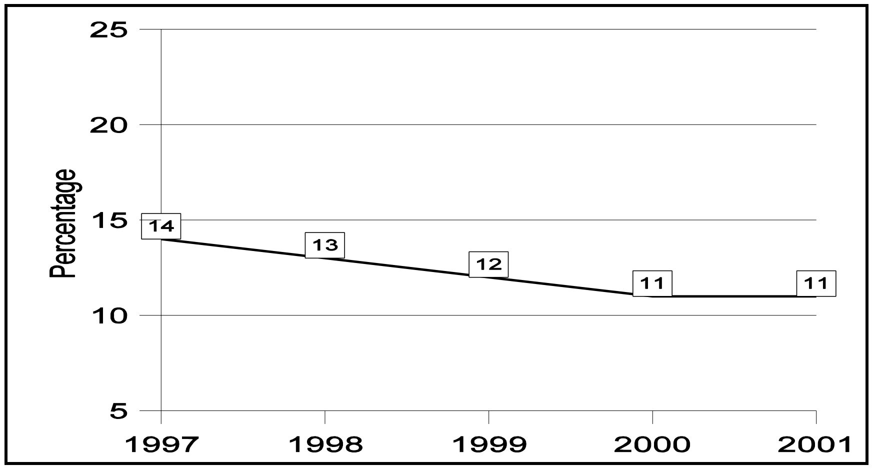
Flexibility

1.23 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to harsher economic conditions such as a recession or higher interest rates without making substantial changes to the way it operates.

1.24 A government's net debt and debt charges provide insight into whether it can respond to rising commitments without increasing its revenues. A rising debt burden and debt charges indicate there are fewer resources to allocate to programs and services. In the current year, the debt burden and debt charges increased slightly.

1.25 One measure of a government's flexibility is the interest costs as a percentage of total revenues. This is sometimes referred to as the "interest bite". In 2000-2001, debt charges were $107.8 million. The trend in the interest bite is shown in **Exhibit 1.5**.

EXHIBIT 1.5
INTEREST COSTS AS A PERCENT OF REVENUE

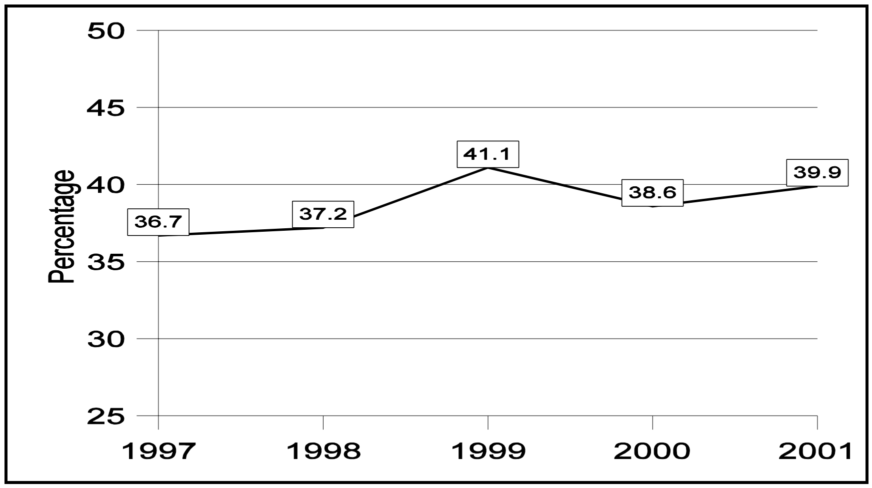


1.26 As indicated in **Exhibit 1.5**, the interest bite has declined from 14 percent in 1997 and has remained at 11 percent for the past two years. Our net debt is over a billion dollars and the first $107.8 million must be earmarked to pay interest costs and is unavailable for government programs.

Vulnerability

1.27 Vulnerability is the degree to which a government is dependent on, and therefore vulnerable to sources of funding outside its control or influence. The provincial government obtains revenue from taxation and user fees, and through transfers from the federal government. In 2000-2001, the federal government provided approximately $384 million to the Province, an increase of $28 million from 1999-2000. The trend in federal transfers relative to total revenues for the last five years is shown in **Exhibit 1.6**. This exhibit shows that approximately 40 cents of each dollar of revenue received by the Province in 2000-2001 came from the federal government.

EXHIBIT 1.6
FEDERAL TRANSFERS AS A PERCENT OF REVENUE



SUMMARY

1.28 This section provides an update on the financial condition of Government using indicators recommended by the Canadian Institute of Chartered Accountants. The indicators provide useful insight into government's ability to sustain its programs, the flexibility it has to respond to economic changes, and its vulnerability to sources of outside funding. It is important for Members of the Legislative Assembly to have a regular update on the Province's finances. The indicators help to put the finances of government in perspective and assist Members to understand and interpret the information.

1.29 Having said this, we recognize that there are other relevant non-financial matters which have to be taken into consideration by Members of the Legislative Assembly in analyzing financial results and making budgetary decisions.

SPECIAL AUDITS AND EXAMINATIONS

2. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

2.1 Under Section 13(2) of the Audit Act, the Auditor General may conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions.

2.2 Due to the size and complexity of operations, it is not possible to audit all Government programs each year. Therefore, audits are conducted on a cyclical basis. Deciding on the selection of audits involves a consideration of a number of factors such as the results of previous audits, financial impact, and significance to the Legislature.

2.3 Special audits and examinations are conducted in accordance with standards established by the Canadian Institute of Chartered Accountants. They are conducted in a series of stages; the planning phase where information is gathered to gain an understanding of the program or entity, and an audit plan is prepared; the implementation phase where evidence is analyzed and observations and recommendations are developed; and the reporting phase where a draft report is prepared and discussed with the auditee. At the conclusion of the audit, a final report is issued to the department or agency and a written response is requested.

2.4 As noted, part of the audit process includes providing recommendations to management. We do not, however, infringe on management's right to select the most appropriate course of action to address any problems identified. We are primarily concerned that the issues raised are satisfactorily addressed. Under Section 16 of the Audit Act, the Auditor General is required to call attention to any matters which he considers necessary to be brought to the attention of the Legislative Assembly. This report provides information on the following special audits and examinations: Golf Course and Academy

Purchase; PEI Business Development Inc. Grants and Contributions; Loans under the Immigrant Investor Program; Accommodations; Employment Development Agency; Cash Management; Evergreen Technology Asset Management Program; Claims Processing System for Physician Payments; and Health Informatics.

3. GOLF COURSE AND ACADEMY PURCHASE

BACKGROUND

3.1 The Dundarave Golf Course was purchased in December 2000 by Golf Links Prince Edward Island Inc. (Golf Links) from Brudenell II Inc. for $6.95 million. Brudenell II Inc., a private company, had constructed the golf course under an agreement signed in January 1998 with the Province. Golf Links is a wholly owned subsidiary of Tourism PEI, a provincial Crown corporation. Golf Links leased the golf course from Brudenell II Inc. since it opened in July 1999, under an operations/management (lease) agreement.

3.2 The Brudenell Golf Academy (Golf Academy) was acquired in December 2000 by ATHI Enterprises Inc. (ATHI-Ent), a subsidiary of Holland College for total consideration of $3.55 million. The Golf Academy began operations during the 1999 season and was owned by a group of private investors. This same group of investors also owned Brudenell II Inc.

OBJECTIVES AND SCOPE

3.3 Our audit objective was to review the purchase of Dundarave Golf Course and the Golf Academy located at the Brudenell River Resort. We reviewed the agreements, approvals, consultants' reports, financial information and professional fees concerning the Golf Course and Academy purchases. In order to complete our audit work we made enquiries of management and staff of the Departments of Tourism, Education and Provincial Treasury as well as Holland College.

DETAILED AUDIT OBSERVATIONS

Dundarave Purchase

3.4 In January 1998 the Province signed agreements with a private sector development group that identified golf development activities planned for 420 acres of Crown lands surrounding the Brudenell Resort complex. A second 18 hole championship caliber golf course and a golf academy were to be constructed by the developers on Crown land transferred to them at nominal value. An operations/management (lease) agreement for the golf course was signed with the developer, Brudenell II Inc., covering the period from January 1998 to December 2008. In 1998 Golf Links was incorporated to operate, on behalf of the Province, four golf courses including Dundarave. In accordance with the lease, Golf Links was entitled to all revenues and the developer was to be paid $635,000 per year over the ten year operating period beginning in 1999. The lease included a purchase option in 2008 for a price to be determined at that time based on its fair market value less the value of land contributed to the project.

3.5 In October 2000 the Board of Directors of Golf Links approved, in principle, an early termination/buy-out of the lease at $6.95 million. This was also approved by Executive Council in October 2000.

3.6 In 2000, prior to the purchase, Golf Links hired a consultant to provide the following services:

- Perform an analysis of the golf market area;
- Examine historical and projected operating performance of the course;
- Provide an estimate of the value of the course; and
- Provide supplemental information to assist the Province in assessing the potential early termination of the agreement.

3.7 The consultant's June 2000 report includes information on each of these areas which we have summarized in the following paragraphs.

Golf Market

3.8 The report provided an analysis of the golf market in the Province including supply and demand. It estimated the demand, or rounds of golf played, using 1999 provincial population estimates and tourist visitation statistics. Twenty-five golf courses operated in the 2000 season and the consultant reported the supply of golf courses was sufficient to satisfy demand at that time. The number of rounds played by tourists was 413,000 or sixty-nine percent of the total. The consultant reported that five new courses were approved or under construction and four others were in the proposal stage. The consultant noted that the proportion of rounds played by tourists was high. Therefore, unless the number of tourists increased, as additional courses enter the marketplace, the ability of courses to achieve their optimum and historic volume would be a challenge.

Operating Performance

3.9 The operating performance of Dundarave was used by the consultant to calculate a fair market value. However, Dundarave was only opened in July 1999 and little relevant historical information was available. Therefore, the valuation calculations were primarily based on forecasts using a ten-year projection prepared by management in November 1999.

3.10 A key point in the consultant's calculations of value was that the estimates were based on management assumptions. The consultant noted that management's assumptions were relied on and cautioned the reader in this regard.

3.11 The consultant's report indicated demand was equal to supply in the 2000 season and any new courses increase the risk of saturating the market. The report noted that if the potential five new courses they identified were opened there would be an excess supply of 5.5 courses province-wide. The impact of the changing golf market in the Province on the operating results of courses like Dundarave is significant. However, Golf Links did not adjust their November 1999 projections for the possible negative effects of new courses being opened. Management advised us that the projections were not adjusted because, based on historical information, they expected continued growth in the industry. The actual results for Dundarave did not meet this expectation.

3.12 We compared the actual performance of Dundarave in the 2000 and 2001 golf seasons to the projections of management which were used by the consultant in the course valuation. The consultant projected net cash flow of $1.28 million for the 2000 and 2001 seasons combined. There was an actual negative cash flow of $110,000 during this period.

3.13 The rounds of golf played are a critical success factor in forecasting the revenues from green fees, cart rentals and merchandise sales. For example, 48,000 rounds in the 2000 and 2001 seasons combined were expected to generate $2.29 million in green fees and $3.48 million in total revenues. However, the actual number of rounds was 29,500, or 61 percent of the projection and total revenues were approximately $2.45 million or $1.03 million lower.

Estimate of Course Value

3.14 The consultant indicated the most appropriate technique to determine fair market value in this case was the Discounted Cash Flow approach based on the net present value of future cash flows. A five year forecast for the 2000 to 2004 golf seasons was used with the expected cash flows and the residual value after five years discounted to calculate a value for the business as at March 2000.

3.15 The methodology applied by the consultant and results include the following highlights:

- The green fees portion of revenues for the 2000 and 2001 season were expected to be $2.29 million resulting from 48,000 rounds of golf;
- Expenses were deducted which excluded any depreciation or debt payments but included an allowance for head office expenses and capital maintenance;
- Net projected cash flow was $.47 million in 2000, increasing to $.87 million in 2004; and

- The net cash flows for each of the five years plus the residual value beyond 2004 were discounted at rates of 10 to 11 percent which the consultant indicated would represent what a prudent investor would require as a reasonable rate of return.

3.16 The consultant estimated a possible range of fair market value to fall between $5.7 million and $6.4 million. When asked to be more specific the consultant favored a value of $6 million. The actual price paid was $6.95 million.

Supplemental Information

3.17 In addition to estimating the fair market value of the golf course the consultant prepared an estimate of the present value of costs under the original operations/management (lease) agreement. The consultant reported, based on management projections of net cash flow, if the agreement were in effect for its full-term and the Province was to exercise its purchase option, the present value of that future obligation would be $9.7 million.

3.18 The $9.7 million reported by the consultant was prepared for Golf Links management and used by them to evaluate an early termination/buyout of the lease. Management of Golf Links advised us that they considered the consultant's calculation to be on the high side and the Board revised it downward to $8.4 million.

Other Costs

3.19 The Dundarave Golf Course deficiencies were identified by a different consultant in November 1999. We were advised by management of Golf Links during our previous audit that the deficiencies would be corrected by the Developer no later than July 2000. If not, Golf Links could correct them and recover the costs. The corrections were not made in 2000 and during negotiations for the purchase of Dundarave, Golf Links placed a value of $145,000 on the deficiencies, however, a purchase price adjustment of $65,000 was accepted. Management of Golf Links advised that their cost estimate was based on out-sourcing and they expected to use internal sources to do the course repairs more economically.

3.20 Golf Links paid $122,000 in legal, accounting and consulting costs regarding the golf course purchase. These costs include the consultant's report prepared in June 2000.

3.21 The original lease agreement contained a purchase option price for Dundarave which was to be based on fair market value in 2008 and included a provision for the Province to receive credit for the fair market value of the unimproved land as of the date of conveyance to the Developers. The 1998 agreements transferred 420 acres of Crown land, with an assessed value for tax purposes of $375,500, to the Developers. However, the Province did not receive credit for this land when the golf course was purchased.

Other Information

3.22 Management of Golf Links indicated the $6.95 million purchase price for Dundarave compared favorably with the cost of the Links at Crowbush Cove course. The audited financial statements of Lakeside Development Corporation showed a total cost of $7.4 million for the Links at Crowbush Cove. The actual design and construction costs were incurred between 1991 and 1993 and amounted to $5.4 million. In addition, financing costs of $.9 million were charged during construction and another $1.1 million in financing costs were charged to the project after construction.

Recommendation

3.23 Capital projects of this nature should be implemented only after a complete cost/benefit analysis is completed and competitive proposals are requested.

Golf Academy Purchase

3.24 The acquisition of the Golf Academy by ATHI Enterprises Inc. (ATHI-Ent), a subsidiary of Holland College, was approved by Executive Council in December 2000. The purchase involved a combination of a purchase of shares, payout of loans, and the take over of an existing loan. It included cash consideration of $2.55 million plus a $1 million loan from the Atlantic Canada Opportunities Agency (ACOA) was assumed, resulting in a cost of $3.55 million.

3.25 The purchase agreement required the Province to pay all legal, accounting and expenses incurred as a result of the purchase. The Department of Provincial Treasury paid grants totalling $300,000 during the four months ended March 31, 2001which were used to pay the legal, accounting and operational costs of the Golf Academy.

3.26 A consultant was engaged to prepare an estimate of the value of the Academy. In a report dated June 2000, the consultant estimated that the fair market value of the Academy as at March 31, 2000 was between $1.7 million and $2.1 million. A decision was made in December 2000 to purchase the Golf Academy.

3.27 A business proposal or plan was not prepared including a cost/benefit analysis and the long-term financial impacts of purchasing the Golf Academy. For example, there was no documented plan showing how the $3.55 million debt would be repaid.

Financing

3.28 In addition to assuming the $1 million loan to ACOA, the acquisition of the Golf Academy involved cash consideration of $2.55 million. A $2.55 demand loan was provided by PEI Business Development Inc. (BDI) to ATHI-Ent. The money was used by ATHI-Ent to purchase the shares of Confederation Golf Inc. (CGI) which owned the Golf Academy assets, and pay certain liabilities of the company. The shares of CGI were purchased for $1.436 million and $1.114 million was advanced by ATHI-Ent to CGI in order to pay bank, shareholders and affiliated company loans. The combined debt as a result of the purchase was $3.55 million; a loan payable of $2.55 million to BDI and a loan payable of $1 million to ACOA.

3.29 In April 2001 Holland College used a $1 million grant received from the Department of Provincial Treasury to reduce the amount owing by ATHI-Ent on the BDI loan.

Provincial Funding of Golf Academy

3.30 The Province, through the Department of Education, signed a four year agreement in December 2000 which makes the Department liable for any operating or cash flow deficits of the Golf Academy. The agreement terminates on December 2004 or earlier, if the Golf Academy is sold.

3.31 In the first season of Golf Academy operations under Holland College's ownership, the operating loss is expected to be $450,000. The Department of Education made quarterly payments in accordance with the agreement, however, the Department expects to be reimbursed by the Department of the Provincial Treasury because they have no budget approved for this purpose. This excludes the interest on the BDI loan which we estimate at $50,000 for the year 2001-2002.

3.32 The Province has a first option to purchase the Academy, in the event the College decides to sell, and *shall* purchase the assets in December 2004 should the College and the Province be unable to reach an agreement to govern future relationships.

3.33 In summary, the cost of acquiring the Golf Academy was $3.55 million. In addition, legal and accounting expenses plus operating losses incurred to March 31, 2001 totalled $300,000. The operating losses for the current year are estimated at $500,000.

Recommendation

3.34 Government should prepare detailed business proposals before entering into projects of this nature. The proposals should contain a complete cost/benefit analysis and fully address the long-term financial implications. In addition, competitive proposals should be requested.

MANAGEMENT RESPONSE

3.35 We discussed our report with management and they agreed with our observations.

4. PEI BUSINESS DEVELOPMENT INC. GRANTS AND CONTRIBUTIONS

BACKGROUND

4.1 Government provides financial assistance to business for economic development purposes through a variety of programs delivered through PEI Business Development Inc. (BDI). This financial assistance is in the form of grants, contributions, equity investments, loans and loan guarantees. Our audit focused on grants and contributions provided through BDI to private sector businesses.

4.2 Grants and contributions approved by BDI have increased significantly over the past four years from $12 million in 1997-98 to $32.5 million in 2000-01.

OBJECTIVES AND SCOPE

4.3 In accordance with Section 13 of the Audit Act we conducted an examination to assess whether adequate management practices and controls were in place and consistently applied by PEI Business Development Inc. in providing grants and contributions. We looked for financing objectives to be clear, linked to the Provincial economic development strategy and reflected in planning processes and program structures. In addition, we looked for performance to be monitored and information reported at various levels.

4.4 Our audit focused on grants and contributions under four major programs; Infrastructure, Sectorial Development, Capital Assistance and Enterprise Development. We also reviewed other assistance including loans and equity investments where they had been provided to the same client by PEI Business Development Inc. We examined grants totalling $26 million primarily related to approvals during 2000-01, however, we did examine some grants approved in the prior year to assess the extent of monitoring. In addition some current year approvals were examined.

4.5 Our examination was performed in accordance with auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Governance Issues

4.6 PEI Business Development Inc. is a Crown corporation and was established by an Act of the Legislature, proclaimed in 1999. The Act states that the affairs of the corporation shall be conducted by a Board of Directors consisting of:

a) the Minister of Development and Technology;
b) the Deputy Minister;
c) the Deputy Provincial Treasurer; and
d) two persons appointed by the Lieutenant Governor in Council.

4.7 A Board of Directors normally concerns itself with the development of policy, approval of plans and budgets, monitoring of financial and management performance and reporting to the Ministry on organizational performance. In our last audit on loans and guarantees we reported that the Board had met only twice as of September 2000. One additional meeting was held in December 2000, a total of three meetings during the period from its inception in 1999 to March 31, 2001. Subsequent to our audit we were advised that the Board is now meeting regularly.

4.8 When meetings of the Board of Directors were held, the direction provided by the Board was limited. The meetings primarily consisted of management updating the Board of Directors on the activities of the corporation. For example, an internal reorganization was carried out and presented to the Board for information and discussion but there was no authorization obtained for the restructuring. The Board did not have a role in the strategic planning process nor did it approve the corporate plan. In addition, authorization was received from Treasury Board for BDI to purchase a building for approximately $2.5 million and relocate its offices but there is no record in the Board minutes where authorization was requested or provided for this major undertaking.

4.9 Since its appointment in November 1999, the Board of Directors approved one policy for the corporation which provided authorization limits for various types of transactions. Any projects where the assistance exceeds $1 million must be approved by the Board of Directors. However, we were advised that in practice all client assistance exceeding $1 million is submitted to Executive Council for approval without first being recommended by the Board of Directors. Reports are provided for information purposes to the Board on project approvals and new initiatives.

4.10 PEI Business Development Inc. is a Crown corporation with eight wholly owned subsidiaries and expenditures of approximately $50 million in 2000-01. Given the complexity and magnitude of the operations of the corporation, the need for a strong effective Board of Directors is evident.

Recommendations

4.11 The Board of Directors should fulfil its responsibility to conduct the affairs of the corporation as required by legislation.

4.12 The Board of Directors should establish Board policies around key aspects of the organization such as Board/management responsibility, reporting requirements of the Board, the establishment of performance targets, and approval of plans and budgets.

Management Direction

4.13 PEI Business Development Inc. has a strategic plan which was developed through an internal planning process involving middle and senior management. We noted from our review of Board minutes that the plan was not approved by the Board of Directors. In addition, there is no specific reporting to the Board of Directors on progress against the plan. We were advised, however, that the plan was incorporated into the Ministry plan.

4.14 The project evaluations carried out prior to approval of financial assistance consistently refer to the proposed job creation for each particular project. Many of the letters of offer examined included conditions related to meeting specific job creation targets. In discussions with development officers the number of jobs created was the key reference point for each project. For major clients, the development officers are in frequent contact and they do follow-up on job creation. The information obtained consists of discussion with clients, visits to the site, and review of financial information, although this is generally not audited. We noted, however, that for the projects we examined, involving $26 million in grants, we saw no evidence of specific verification of jobs created.

4.15 Many of the letters of offer include a clause giving BDI authority to examine books of account and records on request. Some state that an annual payroll audit will be carried out by BDI, and one letter we reviewed required a statement of payroll costs audited by a professional accountant. We would expect that the requirements of the Letter of Offer would be followed and where these are broad or general in nature, that a minimum periodic verification of actual jobs created would be carried out for major projects. This could include examination of payroll records or T-4 summaries.

Recommendations

4.16 The strategic plan for PEI Business Development Inc. should be formally approved by the Board of Directors.

4.17 Progress against the targets established in the plan should be reported to the Board of Directors on a periodic basis.

4.18 Actual job creation should be determined on a periodic basis and reported to the Board of Directors.

Management of Grants

4.19 PEI Business Development Inc. provides financial assistance to businesses through the delivery of several different programs. In carrying out our review, we looked for the files to demonstrate appropriate management and controls in place over the evaluation, authorization, disbursement, and monitoring of grants and contributions.

4.20 For each of the files examined, we looked for a project evaluation to be completed. Based on this evaluation and the recommendation of the development officer, we looked for the funding to be authorized in accordance with Board policy. We expected a funding agreement to be in place which defined the objectives, expected results, terms and conditions of the grant, and any accountability requirements. The funding agreements were examined to determine if the applicants formally accepted the terms and conditions of the offer before funds were disbursed.

4.21 For each project selected we checked the disbursements to determine if they were made in accordance with the terms and conditions of the Letter of Offer where specified and were reasonable in the circumstances. Where disbursements were based on reimbursements of expenses we looked for paid invoices to be on file or evidence from the development officer that they had been examined.

4.22 We expected monitoring to be carried out on each project to determine if the terms and conditions of the Letter of Offer had been met and the funds were being used in accordance with the approved business plan.

4.23 Based on these criteria, following are observations on some of the grants examined.

Call Center Company

4.24 In September 2000 a call center company approached government to finance an expansion and purchase of the building in which they were located. The company had been refused by the PEI Lending Agency because they did not have the required equity. A loan for $350,000 was authorized by the Deputy Minister of Development to allow the company to pay for equipment on order while the Lending Agency reconsidered the project. The temporary loan was a demand loan bearing interest at 9 percent and secured by a personal guarantee of the owner. No statement of net worth was on file to support the personal guarantee.

4.25 Business Development Inc. then agreed to a proposal whereby they would provide an additional $300,000 as bridge financing which would later be replaced by the sale of preferred shares to external investors. Treating this $300,000 as equity would allow the Lending Agency to provide a loan of $800,000 to be secured by a first charge on the assets. The proceeds from this loan would be used to finance leasehold improvements, and purchase computer hardware and software. When the Lending Agency approved their loan, BDI turned the $350,000 temporary loan they had outstanding into a grant. Because the $350,000 loan was later transferred to a grant, it was not disbursed in a manner consistent with other grants based on presentation of invoices supporting the company's expenditures on the project.

4.26 There was also approval of a $60,000 Equity Investors Incentive which would help in attracting the external investors. We noted the total $710,000 in financing through BDI was approved by the Deputy Minister whose signing authority is limited to $500,000.

4.27 The terms of the Letter of Offer for the $300,000 loan, and the Equity Investors Incentive specifically require annual financial statements under a review engagement by a professional accountant. The financial information on file included projected financial statements in the business plan dated August 2000. Actual draft financial statements were provided for December 2000 but they are unaudited and not covered by a review engagement.

Recommendations

4.28 Signing authority levels, as established in policy, should be followed.

4.29 Financial information required in the terms and conditions of the Letter of Offer should be obtained and reviewed by the Development Officer.

Seafood Processing Firm

4.30 We selected a grant of $2.8 million expensed in the year ended March 31, 2000 by BDI for a seafood processor. The grant was actually a write-off of a portion of a $7 million preferred share investment which had been provided in 1998 with the amalgamation of several seafood processors.

4.31 We looked for the preferred share investment to be monitored in accordance with the Letter of Offer. That letter set out terms and covenants to the agreement, which stated the processor could not, without the written approval of BDI, engage in the following actions:

e) issue any new shares of any class to any person;
f) change the capital structure or ownership of the company or redeem any of its shares;
g) pay dividends or make any loans or advances to shareholders or persons related to shareholders;
h) pay any compensation or benefits to shareholders or persons related to shareholders contrary to the Canada Business Corporations Act;
i) repay any monies to any shareholders or persons related to shareholders including, interest on shareholder loans;
j) make intercompany loans or repayments.

4.32 In this case, the audited financial statements were not available to the development officer to carry out the monitoring which is the normal practice within BDI. Instead, at the company's request, due to the sensitive nature of the financial information, the statements were only provided to the Deputy Minister. When we reviewed the financial statements, we found two of the six covenants had been violated; advances of $250,000 were made to a related company, and shareholder advances of $632,000 were repaid between 1999 and 2000 and were noted as being interest bearing.

4.33 A further condition attached to the investment was that the company meet employment targets set out in the Letter of Offer. The letter specifically required the company to submit each year the gross amount of its PEI payroll accompanied by an opinion of its auditors. We found that although BDI received payroll information, it was not audited and no specific schedule of payroll was included in the audited financial statements. The unaudited payroll information provided by the company for 2000 showed a gross payroll exceeding the required target.

4.34 In summary, the client is not in compliance with all the terms and conditions of the preferred share agreement established in 1998. In addition, BDI has not obtained audited payroll information as required by the Letter of Offer.

Recommendations

4.35 PEI Business Development Inc. should monitor financial information to ensure that the terms of the Letter of Offer are followed by the client.

4.36 The Board of Directors of BDI should determine what action is required as a result of the non-compliance with covenants of the preferred share agreement and recommend appropriate action.

4.37 PEI Business Development Inc. should obtain audited payroll information for 1999, 2000 and 2001 as required by the Letter of Offer.

Aerospace Manufacturer

4.38 A company which produces high quality precision components for the aerospace industry decided to expand their existing plant and establish a new plant. Executive Council approved a non-repayable grant for $1.38 million, a $250,000 interest free loan from PEI Lending Agency, with a carrying cost of $49,000 paid by BDI, as well as the purchase and leaseback of the company's building in West Royalty for $650,000. The total assistance from BDI amounted to $2,079,000.

4.39 The following year $450,000 was approved by the Minister for what was called Phase II of the expansion. This grant did not go to Executive Council for approval. The first grant was recorded in 1999-00 with approval of Phase II in 2000-01. Construction on phase one was not complete before approval of Phase II. Given the magnitude and timing of the Phase II project, we would expect the cumulative exposure to be considered and the project submitted to Executive Council for review and approval.

Recommendation

4.40 Executive Council approval should be obtained for projects where cumulative assistance greater than $1 million is provided over more than one fiscal year.

Holland College

4.41 We noted from our review that BDI provided approximately $600,000 in grants to Holland College in 2000-01. Two of these grants were provided under BDI's Infrastructure Program; one for $350,000 to the Atlantic Welding and Fabrication Institute (AWFI) and the other for $173,550 to the Atlantic Tourism and Hospitality Institute (ATHI). The first arose when the AWFI was established and the need for an operating grant of $350,000 per year for 10 years was identified. The second grant was related to a capital expansion at ATHI. It was believed at the time that funding for these projects could be provided through the Labor Market Development Agreement. It was disallowed under that agreement and BDI provided the required funding. Authorization on file is limited to a memo describing the situation and initialed by the Deputy Minister of Development.

4.42 We noted there was no project evaluation, Letter of Offer, or funding agreement with terms and conditions accepted by the College. The memo referred to the AWFI funding at $350,000 per year for 10 years but it is unclear whether the approval authorizes this ongoing commitment. If it is intended to approve the full amount, the approval of the Board of Directors of BDI and Executive Council should have been obtained. In addition, we noted the funding for AWFI relates to ongoing operations of the College and would therefore, normally be funded through the Department of Education.

4.43 We also reviewed a $60,000 grant provided for marketing of welding and aerospace programs and a $100,000 grant provided at $20,000 per year for 5 years to assist the Holland College Foundation to provide scholarships for students entering aerospace programs. These grants were appropriately approved and supported by signed Letters of Offer.

Recommendations

4.44 A project evaluation should be conducted for all forms of development assistance provided through BDI.

4.45 Grants and contributions should be supported with funding agreements which have terms and conditions accepted by the client.

Aerospace Engine Repair Company

4.46 In March 2000 Executive Council approved a major financing arrangement to support an expansion to an aerospace engine repair company located at Slemon Park. The company had secured licensing agreements which required leasehold improvements, substantial investment in machinery and equipment, and working capital to fund the expansion. The licensing agreements would result in an increase in employment from 150 to 270 full-time jobs within four years. The funding for the expansion would be provided in part through a $20 million loan through the PEI Lending Agency as well as a non-repayable grant of $3.6 million through BDI.

4.47 In 1995 the Province entered into a Tax Rebate Agreement with this company. The process put in place through the Tax Rebate Agreement requires the company to submit to BDI the computations of the tax grant as prescribed by the Tax Rebate Agreement accompanied by the opinion of the external auditor. Any reassessment notices received by the company from the Canada Customs and Revenue Agency are to be forwarded to BDI along with any revised calculation of the tax grant payable. Also, beginning in the second year of the agreement, the external auditors of the company are to provide an opinion to BDI that the company has submitted all reassessment notices and revised calculations have been made in accordance with the Tax Rebate Agreement.

4.48 In June 1998, the parent company of this Slemon Park corporation completed the sale of its repair and overhaul division to the public in an initial public offering. A substantial gain on the sale of goodwill was attributed to the active business income of the Slemon Park corporation. The total provincial corporate income tax eligible under the Tax Rebate Agreement, as provided under an audit opinion, was $6,956,472. This amount was disbursed by BDI in May of 2000 as required under the Agreement.

4.49 The new public company bought the assets of the Slemon Park company and continued operations under a new name. The Province agreed to extend the Tax Rebate Agreement to the new company at

Slemon Park, as it was essentially the same company under new ownership.

4.50 In the Spring of 2001, the Province became aware that tax reassessments had been provided by the Canada Customs and Revenue Agency to the original company at Slemon Park in January 2001 pertaining to the 1997, 1998 and 1999 taxation years. These reassessments retroactively reduced the Provincial corporate taxes payable by the company by $4,995,411. Consequently, based on the reassessment, part of the income tax rebate paid by the Province should be returned. At the time of our audit, the Province was in negotiation with the parent corporation in an attempt to recover the grant overpayment due to the tax reassessment.

4.51 Although in this case, the revised taxes payable arose as a result of a loss carried back, as allowed for under the Income Tax Act, the external auditor's opinion that the company had submitted all assessment notices or reassessment notices and revised calculations had not been provided. The Tax Rebate Agreement places the onus on the company to provide the documentation. In monitoring of this client, BDI staff should ensure that the requirements under the Tax Rebate Agreement are met.

Recommendation

4.52 PEI Business Development Inc. should ensure that the procedures established in tax rebate agreements are followed.

Literacy Education Company

4.53 In 2000 the company put forward a business plan with a projected increase in sales and profitability. PEI Business Development Inc. had provided assistance in the past to this company. In 1997, $125,500 was provided as a preferred share investment and in 1999-00 a rental incentive, equity investors incentive, a bridge loan and capital assistance was provided for the total amount of $135,500. In reviewing this assistance we found that the projects were supported with an evaluation, were appropriately approved, and disbursed in accordance with the Letters of Offer. We noted a $250,000 grant was approved by BDI in May 2001 to assist in the company's new expansion. An advance of $150,000 was provided on June 1, 2001 with remaining disbursements subject to the company meeting specific conditions.

4.54 The Letter of Offer for the loan and the equity investors incentive specifically required an annual financial statement prepared by a professional accountant and accompanied by his report. For each of these offers of assistance there are conditions attached to approval such as; proceeds are not to be used to reduce shareholder loans. In general, these types of conditions require monitoring through analysis of the annual financial statements. We found only internally prepared financial statements had been obtained instead of statements prepared by a professional accountant as required by the Letters of Offer.

Recommendation

4.55 Independently prepared financial information required by the Letter of Offer should be obtained and reviewed by staff.

Fiber Optic Cable Manufacturer

4.56 In June 2000 a manufacturer of fiber optic cable assemblies approached the Province seeking financial assistance to establish a manufacturing plant at Slemon Park. A project evaluation was completed which showed project costs at $962,000 for equipment and training which would be funded $255,000 by BDI, $312,000 by ACOA and $150,000 by Human Resource Development Canada (HRDC) with the company providing the balance of $245,000. The plant was estimated to create 88 jobs by December 2001. The $255,000 to be provided by BDI was approved by the Deputy Minister.

4.57 Before the assistance was disbursed, BDI provided a letter to the client indicating the assistance was reduced to $200,000 and would be provided for training and moving expenses rather than capital equipment. We noted this modification to the terms and conditions of the Letter of Offer was not authorized at the same level as the original Letter of Offer. However, disbursements were made based on supporting documentation in accordance with the new terms and conditions.

4.58 In December of 2000 BDI approved a loan of $250,000 to the company to finance operations. The company had a proposal before government to finance an expansion to the Slemon Park operation. The loan was payable on demand with interest at 8.5 percent, secured by a personal guarantee of the President of the company and an assignment of any proceeds received to finance the proposed expansion. No statement of net worth was on file to support the personal guarantee.

4.59 In February 2001, Executive Council approved a $2 million loan from the Lending Agency, as well as a $2 million grant from BDI, to assist in financing the expansion which was to result in additional employment of over 450 people by December 2003. However, we were advised that the project did not move forward as planned and will remain on hold until the spring of 2002.

4.60 We noted that an advance of $250,000 was provided on the $2 million grant on March 22, 2001. This, in addition to the $250,000 loan and the original $200,000 grant brings to $700,000 the amount BDI has provided to the company to date. The current level of employment was reported by the company at 38.

Recommendation

4.61 Terms and conditions of the Letter of Offer should not be revised without authorization at the level required for approval of the original assistance.

Other

4.62 For two other projects that received grants from BDI our comments are included under a separate section of the report on Loans Under the Immigrant Investor Program. These projects include a resort development and a fish egg export company.

Program Criteria

4.63 There were 12 separate grant programs available through BDI in 2000-01. This does not include other types of development assistance such as equity investments, loans, and loan guarantees. Most of the grant programs have guidelines and eligibility criteria. The criteria are documented in program descriptions and application forms which are available through Access PEI and on the internet.

4.64 Two of the largest programs, however, the Infrastructure Program and the Sectorial Development Fund do not have criteria or eligibility requirements. In 2001, $9.8 million was expensed through the Infrastructure Program, and $3.5 million through the Sectorial Development Fund.

Recommendation

4.65 Criteria should be developed for all programs and approved by the Board of Directors.

Lending Function

4.66 At the date of our report last year on Lending Activities and Loan Guarantees, we were advised that it was not the intention of BDI to establish its own lending services section. Since that time the lending portfolio has continued to grow. Loans receivable have increased from $4.9 million at March 31, 2000 to $10.5 million at March 31, 2001.

4.67 Although we did not specifically set out to review loans at BDI, where we selected clients who had received grants and also a loan, we reviewed the loan outstanding. The loans we reviewed generally were demand loans. The security ranged from hypothecation of company shares, to personal guarantees, to no security required. The interest rates on loans outstanding ranged from non-interest bearing to 9.25 percent per annum.

4.68 It is evident from this review that loans were approved under a variety of circumstances, and policies were not in place establishing terms and conditions under which loans could be provided. Given the current magnitude of the loan portfolio at over $10 million, accountability and control processes could be improved. We have been advised by management that steps have been taken to improve management and control over lending services, including assigning a manager to oversee the loan portfolio, and engaging a consultant to review the portfolio and assist in designing a system to follow up on outstanding loans.

Recommendation

4.69 Policies and procedures should be established to ensure appropriate control and accountability over loans including; approvals, security requirements, interest subsidies, monitoring, and collections.

MANAGEMENT RESPONSE

4.70 We have discussed our report with management and they indicated that the issues raised will be addressed.

5. LOANS UNDER THE IMMIGRANT INVESTOR PROGRAM

BACKGROUND

5.1 Since its inception in 1986, the Immigrant Investor Program has attracted over $300 million of investment to Prince Edward Island. It was introduced by the federal government to attract experienced business persons and investment capital to Canada.

5.2 The program is regulated under the Immigration Act and is federally administered by Citizenship and Immigration Canada (CIC). Island Investment Development Inc. (IIDI), a provincial Crown corporation, is the fund manager of six government-sponsored funds on Prince Edward Island, known as the Island Funds. **Exhibit 5.1** summarizes the outstanding loans receivable of the Island Funds. The total amount outstanding as at March 31, 2001 was $52 million.

EXHIBIT 5.1
SUMMARY OF IIDI LOANS RECEIVABLE
(MILLIONS)
AS AT MARCH 31, 2001

Date Due	Fund II	Fund III	Fund IV	Fund V	Century	Total
2002	-	18.250	-	-	-	18.250
2003	2.050	2.225	8.595	-	-	12.870
2004	-	-	8.150	2.000	-	10.150
2005	-	-	1.925	7.530	1.300	10.755
Total	$2.050	$20.475	$18.670	$9.530	$1.300	$52.025

5.3 We have audited loans under the Immigrant Investor Program several times, the most recent results were for the year ended March 31, 1998 and were included in our 1999 annual report. We made several recommendations at that time for improved monitoring and compliance.

OBJECTIVES AND SCOPE

5.4 In accordance with Section 13 of the Audit Act, we assessed the management practices and controls used by IIDI to approve and monitor loans made under the Immigrant Investor Program. We reviewed the evaluation process, approval, security, and disbursement of loans, as well as monitoring of projects and compliance with federal regulations. We reviewed a number of loans approved since March 1998, the date of our last audit. We also examined the status of loans to five companies amounting to $36 million for projects approved prior to March 1998. In addition, we reviewed fund offering memorandums, financial statements of the Funds, quarterly reports to CIC and agreements signed by IIDI for third party financing.

5.5 We performed our examination in accordance with auditing standards of the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Island Investment Development Inc.

5.6 The mandate of IIDI is to raise capital in foreign and domestic markets. The corporation owns six funds known as Prince Edward Island Government Economic Development Funds (Island Funds) I through V and Prince Edward Island Century 2000 Fund Inc. Island Fund I was paid out at maturity. Each fund is approved under the federal Immigration Act. As Fund Manager, IIDI is required to implement the investment decisions of each Fund, monitor investments in projects, submit reports to federal officials for compliance purposes and communicate with the investors.

5.7 The IIDI Board of Directors is comprised of the deputies of the departments of Development and Technology, Provincial Treasury, and Fisheries, Aquaculture and Environment. These directors also serve as corporate officers. The daily activities are coordinated by the Acting Executive Director.

5.8 Corporate Services Ltd. (CSL), a subsidiary of PEI Business Development Inc. (BDI), serves as Escrow Agent and Trustee for Island Funds I to V. Investors subscribe for $250,000 units by filing documents with distribution agents located in foreign countries. They send the investment to CSL which holds the funds in escrow until a closing is set. The closing date is set by IIDI when sufficient funds are on hand and potential investment projects have been identified. Upon closing, 70 percent of each unit is advanced to the fund for investment and 10 percent for payment of distribution fees and other expenses. Corporate Services Ltd. retains 20 percent in a repayment account used to refund investors whose visas are rejected.

5.9 The Program was redesigned in April 1999 and is now more closely controlled at the Federal level. However, investors who applied prior to April 1999 are subject to the old rules.

5.10 As of March 31, 2001 the Island Funds had loans receivable totalling $52 million less a provision for losses totalling $3.1 million.

Third Party Financing

5.11 To make the Island Funds more attractive to investors, IIDI entered into agreements with a third party company in February 1998 to provide financing to investors. In most cases the investor pays $79,000 to the Fund and the private sector company pays $171,000 to the Fund under a loan agreement with the investor. The $250,000 subscription is then available to IIDI. At the end of the five year hold period, the project repays the Fund which in turn repays the private sector company. The investor forgoes the return of capital in exchange for having less money at risk for five years and knowing the total cost up front. The risk to the private sector lender is mitigated by a guarantee from the Fund and a letter of comfort from the Province to the private sector company’s conventional lender.

5.12 There were 87 investors who borrowed a total of $14.6 million under third party financing during the two years ended March 31, 2001. Island Investment Development Inc. paid interest at approximately eight percent to the private sector company between the closing date, when funds were available, and the commencement date, when the funds were fully invested. We noted a total of $270,000 in interest was paid by IIDI to the private sector company during the two years ended March 31, 2001. Efforts are made to minimize these costs, however delays have occurred when there are no suitable projects in which to invest, or when the client company experiences delays in satisfying conditions in the Letter of Offer.

5.13 As of September 30, 2001, a total of $3.2 million was being held by IIDI for investment in projects. Of this amount $.4 million had to be invested by December 2001 and $2.8 million by April 2002.

Century Fund

5.14 Prince Edward Island Century 2000 Fund Inc. is an approved fund under the redesigned program. Under the new program rules immigrant investors pay a $400,000 investment to the Receiver General for Canada. A non-transferable, zero interest promissory note, fully guaranteed by participating provinces, is issued for five years and two months. Each of the participating provinces receive a portion of the investor's subscribed amount based on a predetermined formula.

5.15 At March 31, 2001 the Century Fund had received $2.9 million with another $1.9 million received over the summer for a total of $4.8 million by September 30, 2001. A total of $2.2 million has been invested in projects leaving $2.6 million to invest. Under the new rules there is no time limit for investment.

Loan Evaluation, Approvals and Monitoring

5.16 The IIDI Board of Directors approved loan criteria in February 1999 indicating the size and type of loans which should be approved and the security to be provided as follows:

a) Loan size
- $1,050,000 minimum except under unusual investments;

(b) Equity Requirements
- minimum 20 percent equity; This requirement could be waived by the Board of IIDI if the project has a take out guarantee from an established financial institution or is a major strategic priority of government.

(c) Types of Loans
- follow Federal Regulations;
- complement Provincial economic development priorities;
- not used for refinancing; and
- economically feasible.

(d) Guarantees
- applicant should have a strong forward financing plan;
- a sinking fund should be set up directly proportional to the strength of the loan guarantee and the credit worthiness of the applicant;
- must have a first charge on assets; and
- proprietary rights or patent assignments may be considered collateral for certain types of loans.

(e) Company size
- must not have more than $35 million in assets; and
- loans are not restricted to companies only.

(f) Other
- applicants must provide audited financial statements for all loans.

5.17 The loan criteria does not define approval levels for the Board of Directors or Executive Council. Generally, the process for loan approvals works as follows: Staff of BDI, acting on behalf of IIDI, perform an evaluation on each project proposal for loan financing which includes preparation of a submission to the IIDI Board of Directors and a recommendation; the Acting Executive Director of IIDI reviews the evaluation and recommendations provided by BDI staff and submits them to the Board of Directors for approval; projects are then submitted to Treasury Board and Executive Council with approval of the Minister of Development and Technology.

5.18 Federal regulations require that loan proceeds be advanced to the client company as of a fixed date, in order to begin the investors five year hold period. Each Letter of Offer has conditions precedent to an initial disbursement which the borrower must fulfil before seeking advances. For example, a key condition is provision of security as outlined in the Letter of Offer.

5.19 Based on these criteria, following are observations on some of the files examined.

Lumber Mill Company

5.20 In February 2000, a $2.1 million loan was approved by Treasury Board as part of the financing of a $9 million facility expansion for a lumber mill. Normal practice would be for Treasury Board to recommend approval to Executive Council but in this case authorization of the loan was provided by Treasury Board. The company provided a business plan, cash flow projections, and internally prepared financial statements, however, a project evaluation was not submitted to the IIDI Board of Directors in accordance with normal procedure. The supporting documentation that was provided was incomplete. For example, the company's financial statements indicated that the company had experienced significant sales growth, however, there was no independent assessment of their market expansion plans. In addition, the financial information was unaudited, and did not disclose the relationships with an affiliated company.

5.21 Less than one month after the $2.1 million loan was disbursed it was announced the company was being sold. The sale required the consent of IIDI, which was provided by the Acting Executive Director, without the documented approval of the Board of Directors. The terms of the sale included the transfer of dividends in kind of $2.3 million to the company's original owner who had applied for the loan. No documented evaluation was performed by IIDI outlining the impact of this sale on the project, for which the loan was provided.

5.22 The financial statements provided to support the loan application were unaudited. Internally prepared financial statements indicated net income of $3.3 million and retained earnings of $8 million at June 30, 1999. An audited financial statement was provided for the period ended June 20, 2000 which was subsequent to the loan disbursement but prior to the sale of the company. It included comparative audited financial information for 1999 which showed net income of $2.1 million and retained earnings of $6.2 million, significantly less than the internal information provided with the loan application. In addition the financial statements for June 2000 showed a net loss of $2.7 million and retained earnings had decreased to $1.2 million.

5.23 We noted Island Investment Development Inc. has obtained audited financial statements for the period from June 21, 2000 to December 31, 2000. During this period, subsequent to the sale, the company has lost $4.4 million and retained earnings have been reduced to a deficit of $3.2 million. The financial statements have been qualified due to lack of disclosure of transactions with related parties and inability of the auditors to observe the counting of inventories.

Recommendations

5.24 A comprehensive project evaluation should be performed on all applications.

5.25 All loans under the Immigrant Investor Program should be approved by Executive Council.

5.26 Audited financial statements should be provided with loan applications.

5.27 Documented Board approval should be obtained for significant project changes, such as a change in ownership of the recipient company.

Seafood Processing Plant

5.28 In 1996, a new processing plant was constructed with immigrant investor funding obtained through a private sector syndicate. Due to a shortfall of $1.75 million in the amount of funds available through this syndicate, the seafood processor financed a portion of the construction, as well as additional capital expenditures of approximately $500,000 with interim conventional financing.

5.29 In 1999, the seafood processor applied for immigrant investor financing through Island Investment Development Inc. A $2 million loan was approved in March 1999. The Letter of Offer indicated funds would be used for completion of the capital costs of the processing plant. However, the financial statements of the company indicate that no funds were invested in building assets in the year the loan was advanced. The loan was used to re-finance existing short-term high interest debt and therefore, is not in accordance with the loan criteria, Offering Memorandum or federal regulations. The four percent loan was advanced to the seafood processor on March 29, 1999 and subsequently a $2.2 million prime plus two percent loan due to a third party April 30, 1999 was repaid. During the remainder of that year the company only invested $200,000 into capital assets.

5.30 We noted that the company was not required to make an equity contribution to the project. Island Investment Development Inc. loan criteria allows the equity requirement to be waived by the Board where a forward financing commitment has been provided by a financial institution. In this case a forward financing commitment was provided, however, there was no documented approval by the Board to waive the equity requirement.

Recommendations

5.31 The loan criteria approved by the IIDI Board of Directors should be followed. Where equity requirements are waived, Board approval should be documented in the Board minutes.

5.32 Procedures should be in place to ensure funds disbursed are used for the purpose outlined in the Letter of Offer.

Nutraceutical Company

5.33 A $1.75 million loan was approved for a $3.9 million project to build a processing plant for the production of nutraceuticals. The equity provided by the proponents was $.5 million or 13 percent which is below the 20 percent required by the loan criteria.

5.34 We noted the annual financial statements provided for monitoring purposes were unaudited and did not fully disclose transactions with related companies. They did, however, disclose a $1.5 million US purchase commitment including a non-refundable $100,000 US deposit. Correspondence from IIDI's legal counsel states that this should not have occurred without the consent of Island Investment Development Inc. We noted no consent had been provided by the Board of Directors of Island Investment Development Inc. for the company to enter into this purchase commitment.

Recommendations

5.35 The loan criteria approved by the IIDI Board of Directors should be followed. Where equity requirements are waived, Board approval should be documented in the Board minutes.

5.36 Island Investment Development Inc. should require client companies to provide audited financial statements annually in order to monitor performance. These financial statements should be reviewed by IIDI and explanations obtained for unusual items, such as, significant outstanding commitments.

Resort Development

5.37 A hotel operation received loans totalling $8.75 million for three projects estimated to cost $17.5 million. The projects included an 80 unit resort hotel expansion, construction of a Resort Golf and Conference Centre, and construction of a new 80 unit resort. The first two projects received approval in 1999 and the third one was approved in 2001.

5.38 The resort expansion loan was for $5.5 million toward a $6.5 million project. The equity to be contributed to the project by the developer as approved in the Letter of Offer was $.5 million or less than eight percent of the total costs. The loan criteria requires 20 percent equity unless specifically waived by the Board. We found there was no documented approval by the Board of Directors to waive the equity requirement in this case. The equity requirement was waived in a letter issued by the Deputy Minister of Development.

5.39 We noted a sinking fund was established for this loan requiring annual deposits of $150,000 beginning October 1, 1999. Sinking fund requirements were being met as per the latest audited statements on file dated October 31, 2000. Audited financial statements for October 31, 2001 were not available at the time of our audit.

5.40 In the fall of 2000, government entered into an agreement with the same developer to construct a new resort complex. Island Investment Development Inc. provided a $1.78 million loan to the developer. One of the regulations of the Immigrant Investor Program is that in order to be eligible the assets of the company in which the funds are invested, including the assets of all corporations associated within the meaning of section 256 of the Income Tax Act, must be less than $35 million. We were advised that in reviewing the project evaluation for the new resort, this limitation was raised as a possible issue during discussions at the Board meeting. Even though audited financial statements were provided by the developer, audited financial statements were not provided for the affiliated group of companies of which it is a part. A combined statement shows assets of $33.5 million but it is not audited and it is not clear if it includes all affiliated companies. A more detailed assessment is required for management to determine if the $35 million asset limit is met.

5.41 A $500,000 loan was also provided by PEI Business Development Inc. (BDI) to the developer for the new resort complex. Disbursements were to be made based on the developer providing satisfactory evidence that it had paid provincial sales tax in respect to the construction costs of the resort. The loan was secured by a second charge on the leasehold mortgage. It was set up for a five year term with interest at BDI's cost of funds plus one quarter percent. The loan was not disbursed until August 2001 when documentation was provided to substantiate the amount of sales tax paid.

5.42 In 2001-02 we noted a grant was paid by BDI to Environmental Industrial Services Incorporated (EISI), a subsidiary of BDI, for $610,000 for infrastructure. The construction of the roads, beach access, lighting, landscaping, and water and sewer treatment for the resort were all funded through EISI. The infrastructure costs are expected to amount to $3.2 million when completed. Approximately $2.6 million of this amount had been previously received by EISI as a result of the Regional Economic Development Agreement (REDA).

5.43 In summary, the Province has provided funding for the new resort complex as follows:

	Millions
IIDI Loan	$1.78
PEI BDI Loan	.50
PEI BDI Grant to EISI	.61
REDA Grant - Provincial Share	.78
	$3.67

Recommendations

5.44 Loan criteria concerning minimum equity requirements established by the IIDI Board of Directors should be followed. Where loan criteria are waived, approval should be formally documented in the Board minutes.

5.45 Documentation should be maintained by IIDI to demonstrate compliance with federal program regulations concerning asset limitations.

Sow Breeding Operation

5.46 In the spring of 1999, Executive Council approved a loan of $2.56 million to finance a $3.2 million sow breeding operation. The newly incorporated company would be a multiplier breeder and a significant player in the production and export of provincially developed swine genetics. The shareholders were to contribute $640,000 in equity and working capital was to be provided through a combination of financing through Garden Province Meats, as well as a conventional lender.

5.47 We noted significant delays occurred on the project and disbursement on the loan did not occur until May of 2000. During the intervening period, two of the original proponents withdrew and were replaced by other shareholders. The project evaluation indicated that the shareholders, who were hog producers themselves, were expected to purchase twenty percent of the production of the new company. However, we noted there was no evaluation on file of their financial capabilities. Also, no financial statements for the individual operations of each of the project partners were available. The effects of the change in ownership and control of the project from what was in place when it was initially approved by Executive Council, was not explained or evaluated. The significant change in circumstances pertaining to this project was not resubmitted to Executive Council for approval.

Recommendation

5.48 Where the project proponents are replaced on a project, the effect of such action should be evaluated and if it is determined to impact the success of the project, it should be resubmitted for approval.

Fish Egg Exporter

5.49 This company planned to raise salmon eggs to export globally with particular emphasis on the market in Chile where the demand for disease free eggs was large and expected to grow by 30 percent per year. A project was put together amounting to $1.4 million to finance the construction of the facility, purchase of equipment, and provision of working capital. Island Investment Development Inc. provided a $650,000 loan in August 1999. The security provided included a fixed and floating charge debenture on assets of the company. The loan funds were advanced and the assets put into production early in 2000. Funding was also provided by ACOA and the shareholders. Business Development Inc. initially provided an Equity Investors Incentive Grant of $70,500.

5.50 In February 2000, the facility was 70 percent complete and the potential market was estimated as significantly higher than originally projected. A disease epidemic had hit most major producing areas and the disease free status of the PEI operation was identified as a significant asset. Additional capital equipment was required to meet anticipated domestic and international demand and BDI provided a capital assistance grant for $66,225.

5.51 In October 2000, BDI authorized a grant for $10,000 under the Development Fund Program to contribute toward the cost of the company engaging consultants to carry out a comprehensive review on the feasibility of establishing a new brood stock research and production facility. The supporting documents to the project evaluation state that the demand for the company's eggs far exceeds the production capacity.

5.52 The Province invested approximately $800,000 in this project and in February 2001 we noted authorization was provided for a grant of $50,000 to facilitate the orderly sale of the assets of the company. File documentation indicates that in the intervening period, Chile had passed regulations and closed its borders to the importation of salmon eggs. When we followed up with staff at BDI, we were advised that without the Chilean market the project was no longer feasible. The project evaluation is intended to provide an objective assessment of the opportunities and risks associated with the project and should clearly stipulate when a project is primarily dependent on a single market. In this instance, the fact that the feasibility of the project was reliant on the Chilean market was never made clear in the project evaluation.

5.53 In February 2001, the client company was insolvent and the shareholders were winding up the company. A financial consultant was engaged to develop a package to sell the assets as a going concern. We were advised that due to a lack of response to this approach, negotiations were entered into with one of the former shareholders. The Acting Executive Director of IIDI eventually accepted a settlement of $200,000 on the $650,000 loan. The settlement did not have the documented approval of the IIDI Board of Directors.

Recommendation

5.54 Board approval should be obtained for any settlements on loans receivable from client companies.

Projects Approved Prior to 1998

5.55 We followed up the loan status for five clients with $36.2 million in loans which were approved prior to March 1998, and examined during our previous audit. We expected monitoring to be carried out including follow up of interest payments, review of financial statements, as well as monitoring of other loan conditions such as sinking fund requirements. We also reviewed any additional assistance which was provided by the Province to the client.

Potato Processing Plant

5.56 A $16 million loan was approved for a $35 million project to construct a potato processing plant in 1997. The original proponents of the project sold their shares in the company on January 31, 2000. Executive Council approved the sale, as well as an additional $2.5 million five year interest only loan at four percent which was provided by PEI Business Development Inc. to the new owners. A take out commitment totalling $16 million was provided by the Prince Edward

Island Lending Agency for the Island Funds loan. At the time of our review the interest payments on the loan were up to date.

5.57 The take out commitment was intended to mirror the arrangements made with the Island Funds. This involved interest only payments at four percent over a five year period. A submission to Treasury Board recommended that an interest rebate be provided by BDI to the company which would reduce the effective rate to four percent. Provincial Treasury's lending rate to Crown corporations at that time was 6.75 percent. The interest rebate was estimated to cost $440,000 annually. In addition, the $2.5 million loan from BDI has an interest rate of 4 percent and BDI's cost of financing at that time was 6.75 percent.

Charlottetown Area Development Corporation (CADC)

5.58 In our previous audit of the Immigrant Investor Program, we reported that CADC had a shortage of funds from which to repay an Island Fund loan. The company obtained a $2.678 million loan from Provincial Treasury which was combined with other funds they held to repay the Island Fund loan due in August 1999. No interest or principal payments are due until August 2009 on this 6.82 percent loan from Provincial Treasury, unless the former CN properties pledged as security for the loan are sold.

5.59 The loans for two other clients in our sample were repaid by their due date. The fifth loan in our sample is due June 2002, and we noted sufficient monitoring activity was performed by IIDI staff.

Reporting to the Legislature

5.60 Section 70 (5) of the Financial Administration Act requires each reporting entity of government to prepare an annual report to the Minister who shall lay it before the Legislative Assembly. The annual report is required to include an audited statement of accounts and a statement of goals and results achieved during the period. Island Investment Development Inc. is a reporting entity under the Act and is therefore required to provide an annual report to the Legislature.

We found that although audited financial statements were provided no annual report has ever been tabled since the inception of the Corporation.

5.61 In our 1994 audit report on the Immigrant Investor Program, we recommended that an annual report be prepared on the activities of the Island Funds. In our 1999 report, we again recommended periodic information be made available to government and the Legislature on the Province's involvement under the Immigrant Investor Program.

5.62 The allowance for possible losses on loans receivable of $52 million is in the order of $3.1 million. The Province is liable for any loss that may arise on the investments outstanding. No summary report on the status of the loans outstanding or the extent of exposure to the Province has been provided.

Recommendation

5.63 Information should be provided annually to government and the Legislature summarizing the exposure to the Province under the Immigrant Investor Program.

MANAGEMENT RESPONSE

5.64 We discussed our report with management and they agreed to address our recommendations.

6. ACCOMMODATIONS

BACKGROUND

6.1 In accordance with Treasury Board policy, the management and procurement of accommodations is the responsibility of the Department of Transportation and Public Works (TPW). The Accommodations Operations Section of the Department operates and maintains leased and government-owned facilities across the Province. Treasury Board policy outlines a management and approval process for leases or renovations where client needs can not be met within existing facilities. The Section has Provincial responsibility for over 70 owned buildings and approximately 40 leased properties.

6.2 Total expenditures for the Section were $14.5 million in 2000-01. A breakdown is provided in **Exhibit 6.1**.

EXHIBIT 6.1
SUMMARY OF EXPENDITURES
MAINTENANCE AND ACCOMMODATIONS
OPERATIONS SECTION

	March 31, 2001 (Millions)
Administration	$ 0.7
Leased Buildings	6.2
Owned Buildings	5.0
District Heating	2.6
Total	$14.5

Expenditures under owned buildings include maintenance costs such as fuel, repairs, janitorial, property taxes and wages for staff assigned to particular buildings.

OBJECTIVES AND SCOPE

6.3 In accordance with Section 13 of the Audit Act, we assessed the management practices and controls used by the Maintenance and Accommodations Operations Section to plan, acquire, and manage facilities for government departments and agencies. Our review included three recent renovation projects which cost $1.9 million, a sample of leases which totalled $1.9 million, as well as the arrangements for the Royalty Centre, and the acquisition of the Smallman building.

6.4 We performed our examination in accordance with auditing standards of the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Space Acquisition

Process

6.5 Space costs are usually one of the highest expenditures of an organization after staff costs. For departments and agencies, these costs are generally not visible because they are paid by Transportation and Public Works.

6.6 The process for obtaining office space is not specifically documented but we were advised the process generally includes the following steps:

- Requests are made at the Deputy Minister level to the Section;
- Accommodations staff in conjunction with staff of the requesting department, determine the needs;
- Consideration is given first to available space within government buildings or existing leased space;
- If such space is not available, alternatives are considered;
- Disputes are referred to the deputy ministers of the affected departments to resolve; and
- Treasury Board approval is required for all construction contracts over $100,000, and all leases with an annual value exceeding $50,000 or a term exceeding three years, and a total value exceeding $150,000.

6.7 Well defined procedures for accommodations requests should exist including a standard request form to document pertinent information and outline space requirements. No standard form is used and documentation varies.

6.8 We expected that space standards would be used in the planning process. The Section does not apply any formal standards when assessing the space entitlements for accommodation requests by departments. Under the Treasury Board Policy on Accommodations, TPW is required to recommend accommodation and office furnishing standards to Treasury Board for approval. Similar comments were noted in our previous audit on accommodations in 1993, however, no action has been taken.

Recommendations

6.9 The Section should require departments to use an accommodations request form that clearly details all pertinent information regarding the space requirements.

6.10 In accordance with Treasury Board Policy, the Section should develop accommodations and office furniture standards for review and approval by Treasury Board.

Planning

6.11 In addition to dealing with specific requests for additional space, we looked for the Accommodations Section to have some long-term objectives and direction for space acquisition and utilization. An overall documented accommodations plan does not exist. Without a long-term plan, decisions tend to be reactive instead of proactive.

6.12 There are no complete lists of the number of staff accommodated within particular owned or leased buildings. For the Provincial Administrative Building complex, the Section has floor plans which identify staff at work stations, however, several of these plans have not been updated since 1998.

6.13 We expected the Section to maintain a current inventory of its leased accommodations and owned buildings including an indication of how each is being used. This data would assist in long-term planning by providing a basis from which to evaluate options for change. This information was not readily available.

6.14 From available information, we were able to prepare a complete list of the facilities. For many facilities on the list, it is clear that the Section has responsibility because the facilities are used by departments, and related expenditures are budgeted through Transportation and Public Works. However, in the case of Crown corporations and agencies, responsibility for accommodations does not rest entirely with TPW. The policy indicates consultation, procurement, and management of accommodations for Crown corporations is available on specific request.

6.15 The responsibility of TPW regarding accommodations for Crown corporations varies. Schedule B of the Financial Administration Act lists over twenty Crown corporations and agencies. Most receive Provincial operating grants, and manage and pay for their own accommodations. However, at least five are provided with rent free accommodations which are paid for by TPW. We also noted that TPW pays the lease costs for one location used by Queens Region Health, but many other facilities used by Queens Region are paid for by the Region. We also noted that TPW is paying one Crown corporation for leased space used by another Crown corporation.

6.16 In summary, some Crown agencies have accommodations managed by TPW and paid through TPW's budget while others must obtain and pay for them without assistance from TPW. This leads to incomplete reporting of costs by some agencies, as well as inconsistencies in who pays rent; TPW or the Crown corporation.

Recommendations

6.17 The Section should prepare a plan containing long term objectives for space usage.

6.18 The Section should maintain an inventory of all owned and leased space.

6.19 The Section should maintain up-to-date floor plans for all owned and leased space.

6.20 Responsibility for funding accommodations for Crown corporations and agencies should be clarified in policy.

Leased Premises

6.21 We reviewed ten leases with total costs of over $1.9 million for the year ended March 31, 2001. We looked for the files to contain: a summary of the tenant requirements; Treasury Board approvals where required; documentation to support the procurement process including an assessment of the rent requested; and a signed lease agreement, which contained the terms approved by Treasury Board including the amount of rent to be paid. Where the lease included an operating cost adjustment clause, we looked for the Department to request from the landlord documentation to substantiate the costs billed. The leases were also reviewed for any unusual clauses or lack of clarity.

6.22 For the leases reviewed, we found a significant lack of documentation. Five of the ten leases reviewed had minimal data describing the number of tenant staff, type of space, and how they had been matched.

6.23 In November 1999, Treasury Board approved an amendment to a 20 year lease with the Summerside Regional Development Corporation for an additional 3,000 square feet, costing $63,000 annually. Transportation and Public Works had no documentation to support the need for this space or how it was to be used. The

Treasury Board submission notes several requests for space, possible uses, and discussions with partners to share space. It also indicates, the space became available when a bank tenant moved out. Transportation and Public Works has no signed copy of the lease amendment, however, a revised monthly rent of $41,600 has been paid since March 2000.

Recommendation

6.24 The Section should document its assessment of tenant needs for all accommodations requested.

Signed Agreements

6.25 Management informed us that when a lease expires and there are no arrangements for renewal, the tenancy becomes a month-to-month arrangement. We found that four leases had expired without a renewal agreement being signed as of the date of our audit. The buildings are still occupied and monthly rents have continued. We have been advised by management that efforts have been ongoing to obtain signed lease renewals for the following premises:

- $9,080 per month is being paid for a lease on the Cambridge building which expired in November 1998,
- $3,896 per month is being paid for the Evangeline Regional Services Centre lease which expired March 2000, and
- $15,000 per month is being paid on a lease in the Agriculture Canada Research Station which expired in March 1999.

These lease payments should not be continued without signed lease agreements and approval of Treasury Board as required by policy. We also noted $105 per month is being paid for a dental clinic in O'Leary and the lease agreement expired in April 1996.

6.26 We were advised by management that the Department's lawyer is asked to review any new lease agreements and renewals if there are significant changes proposed. Renewals which have no changes other than dates and rates are not normally reviewed by legal counsel.

Files at TPW do not include documentation on the involvement of legal counsel.

Recommendations

6.27 The Section should complete the lease renewal process on a timely basis.

6.28 All lease transactions should be documented in signed agreements and Treasury Board approval obtained, as required by Treasury Board Policy.

6.29 Lease Agreements should be reviewed by legal counsel before being signed and the work performed should be documented.

Operating Costs

6.30 Three leases in our review allow for annual changes in operating costs and therefore, adjustments to the rent being paid. A base year is established, being the first year of the lease. In year one, a fixed rent is paid which includes the base year operating costs. In future years, the rent is increased or decreased by the change in operating costs. Normally, an estimate of the current year's operating costs is provided by the landlord and used as a basis for rent payments. At year end, the landlord provides a statement of actual operating costs and either credit is received or an invoice paid for the extra amount owing.

6.31 The Section has not obtained statements of the actual operating costs for the first two years of a twenty year lease with Summerside Regional Development Corporation (SRDC). The rent paid for the first year ending March 31, 1999 was $496,000 which included operating costs estimated at $236,000. It was revised by SRDC in November 1999 to $190,000, but no statement was provided to support the calculation. We note the lease includes both a 15 percent administration fee, and a 5 percent management fee, plus amortized fit-up costs. However, because TPW did not require the landlord to submit documented support for operating costs, insufficient data was obtained to determine whether the rent being paid is in accordance with the lease agreement.

6.32 For another property, rent has been paid since May 1997 under a lease which includes a provision requiring the landlord to provide annual statements of operating costs and property taxes. No statements have been obtained by TPW, however, an invoice for $12,000 in additional property taxes was received and $10,000 was paid. Section staff dispute the amount claimed but have not documented any resolution with the landlord.

6.33 In another lease the yearly operating cost statements, as required by the lease, were provided. However, expenditures amounting to $43,000 were paid, including amounts for structural repairs, which were capital in nature and not covered in the lease agreement. After we brought this to the attention of management, a credit of $11,000 was obtained from the landlord.

Recommendations

6.34 Where a lease agreement requires the landlord to provide a statement of operating costs, the Section should obtain the statements. The statements should be assessed for reasonableness and the amounts paid for operating costs should be supported by appropriate documentation.

6.35 The Section should only pay for costs that are outlined in the lease agreements.

St. Peters Visitor Information Centre

6.36 In March 2000 Treasury Board approved a 10 year lease for the St. Peters Visitor Information Centre based on the recommendation of TPW. The developer constructed a 2,500 square foot building of which 75 percent or 1,875 square feet is leased by TPW. The 10 year term was noted by TPW as sufficient for the developer to recover estimated costs of construction. However, the lease signed by TPW is for a 15 year term with rents amounting to $470,000 over the life of the lease. We noted that Treasury Board did not approve the change in the lease term from 10 to 15 years.

6.37 The lease rate works out to $17 per square foot. We also noted construction of the building was financed by the developer with a loan from the PEI Lending Agency.

6.38 In the Department's submission to Treasury Board, the cost of construction was estimated at $100 per square foot. For government's share of the space this would amount to $187,500. The Department did not prepare specifications or detailed cost estimates for the building nor did they solicit bids from prospective developers. In addition, the Department did not prepare an analysis to compare the cost of government constructing the facility versus leasing the facility from a developer.

Recommendations

6.39 Where lease arrangements approved by Treasury Board are significantly changed, the revised arrangements should be resubmitted for further approval.

6.40 Where applicable, a cost benefit analysis comparing leasing versus purchasing/constructing should be conducted and documented by the Section before accommodations are obtained.

6.41 The Section should obtain accommodations through the use of a competitive process.

Agriculture Research Station

6.42 Transportation and Public Works has a unique agreement with the federal government to share costs at the Agriculture Canada Research Station. Under an agreement signed in 1989, TPW is responsible for 32.5 percent of the cost of the 33,700 square feet of space covered in the agreement. This includes; salaries, janitorial, sewer, water, garbage, fuel, electricity, maintenance, operating costs, as well as major repairs and capital cost charges. A yearly statement of the above costs is provided by Agriculture Canada. Transportation and Public Works paid $356,000 as its share of expenses for the year ended March 31, 2001, including $142,000 in capital costs.

6.43 Transportation and Public Works paid approximately $180,000 in electricity costs for the year. The payments were made directly to the utility. The yearly statement of total expenses provided by Agriculture Canada indicates the total electricity costs. However, staff did not reconcile the amount actually paid to the yearly statement to determine if there was an under or over payment. Our cursory review of the costs over the past five years indicated TPW overpaid electrical costs by approximately $15,000. We also noted TPW paid $18,000 annually in property taxes which is not required under the agreement.

6.44 During the five years ended March 31, 2001, TPW cost- shared in $1.1 million of major renovations including changes to allow barrier free access, a sprinkler system, brick pointing, window replacement, roof supports and a new access road. The Department’s share totalled $364,000. Payment for these capital items caused the annual costs per square foot of space to vary from $18 in 1998-1999 to $32 in 2000-2001. Agriculture Canada has proposed new arrangements for TPW to pay rent totalling $244,187 per year. This proposal does not take into account the $1.1 million of capital costs that TPW has cost shared over the past five years.

Recommendation

6.45 The Section should negotiate a lease arrangement for the Agriculture Research Station which clearly outlines the costs that TPW will be responsible for. The Section should attempt to obtain credit in the new leasing arrangement for past contributions toward capital improvements.

Technology PEI Office Space

6.46 In 1999, TPW obtained Treasury Board approval for a one year lease for 5,000 square feet of space to be used by Technology PEI. However, the lease agreement was not signed by the Minister and according to TPW staff the space was not occupied by Technology PEI or any other government department or agency. We observed that $27,000 was paid by TPW to the property owner for rent from January to March 1999. Further, the payment was incorrectly coded to the law courts account instead of Technology PEI. The Department could not explain why $27,000 was paid for this space.

Recommendation

6.47 Rent payments should only be paid in accordance with signed lease agreements.

Rental Revenues

6.48 In 2000-01, revenues totalling approximately $200,000 were recorded in the Buildings and Accommodations accounts. This includes public building rentals, federal contributions toward program delivery, and other miscellaneous cost sharing arrangements. Approximately $140,000 in rental revenue was received from nine tenants.

6.49 We noted TPW subleased space in the Cambridge building to 15 non-profit groups, which in total, occupied over 80 percent of the building. These groups had moved into the Cambridge building without signed lease agreements. Only five of these groups paid rent which amounted to $28,000 annually compared to $165,000 paid for the premises by TPW.

6.50 In the fall of 2000, the sport related non-profit groups in the Cambridge building moved to the Royalty Centre leaving approximately two thirds of the Cambridge building occupied. Only two of the remaining tenants paid rent amounting to less than $10,000 annually. Transportation and Public Works continues to lease the building at an annual cost of $165,000.

6.51 Neither Executive Council nor Treasury Board approved the practice of providing rent free facilities to non-government groups. We also noted the Section does not have signed agreements for the other tenants who do pay rent. The Section is responsible for determining the amount of rent each tenant must pay and should have these arrangements formalized in signed agreements.

Recommendation

6.52 Approval should be obtained from Treasury Board or Executive Council for the practice of subleasing space on a rent-free basis to non-government groups. In cases where property is subleased, the arrangements should be documented in a lease agreement.

Royalty Centre

6.53 In November 2000, a Memorandum of Understanding was signed by TPW, the Departments of Education and Provincial Treasury, Holland College, and Sport PEI concerning future use of three buildings known as the Royalty Centre. The Centre had been used for Holland College programs and a portion of space was used by the Department of Education. Most Holland College programs have now been relocated to other facilities.

6.54 The Memorandum of Understanding indicated:

- Transportation and Public Works was to continue ownership and relieve Holland College of overall responsibilities effective September 1, 2000;
- The main building was to be turned over to Sport PEI for a two-year development period to assess the concept of a “ House of Sport”;

- Transportation and Public Works was to participate with Sport PEI in developing budgets and approval of tenants via a management committee;
- Sport PEI was to assume leasing and rent collections in cooperation with TPW; and
- Holland College was to relocate its remaining programs over the next two years, pay their portion of operating costs and have no further involvement once their programs have been relocated.

6.55 In March 2001, TPW advanced $50,000 to Sport PEI from which it would pay operating costs less rents collected. Sport PEI is to provide a statement of expenditures and revenues with supporting documentation. Also, an audited annual financial statement was a requirement. The above conditions are included in an e-mail to Sport PEI but have not been formalized in a signed agreement.

6.56 We looked for TPW to have a process in place with Sport PEI for approval of tenants including a policy on rents. The first new tenants of the building moved in during the fall of 2000, and include several sport related groups. When we began the audit, TPW did not have complete lists of the tenants including the space they occupy. After we requested the information a list was prepared and provided to us.

6.57 The control exercised by TPW is not sufficient and less than what was intended in the Memorandum of Understanding. For example, as of June 2001, 14 sport related tenants occupied approximately 32,000 square feet of space in the Centre, without formal approval from TPW as required. No information was available on rental rate policies, objectives for cost recovery or total expected rental revenues. The annual operating costs of the Centre were estimated at $480,000. This amount less $70,000 in revenues has been approved in the 2001-2002 budget for TPW.

Recommendation

6.58 Transportation and Public Works should approve all tenants before they move into the Royalty Centre. The rental rates and terms should be documented in agreements.

Smallman Building

6.59 In March 2001, Executive Council approved a special warrant of $1.85 million for the purchase of a building located in Summerside. The property had been owned by Charlottetown Area Development Corporation (CADC) since 1985 when it was redeveloped, then leased to Holland College for 20 years. The College's monthly lease payments of $33,000 were used to retire a $2.95 million debenture owed by CADC. In January 2000 Holland College provided notice that they were surrendering the lease because the building was no longer suitable for their programs. CADC did not accept it, and responsibility for the monthly lease payments fell to TPW. The special warrant was used to reimburse TPW for the monthly lease payments, pay out the balance owed by CADC on the debenture and pay operating costs until the property is redeveloped or demolished.

6.60 The Department's plans for the property were impeded due to the discovery in April 2001 of a subtenant's rights under a sublease. The sublease contained a renewal clause and right of first refusal to purchase the property. This issue is now in dispute. The subtenant was paying rent at the time of our audit which covered approximately 50 percent of the $140,000 in annual operating costs on the building. Until the legal issues are settled, disposition of the property is unclear.

MANAGEMENT RESPONSE

6.61 The Department of Transportation and Public Works provided a written response and agreed with most of our observations and recommendations. In some cases the course of action was not clear and we will follow up on these issues.

7. EMPLOYMENT DEVELOPMENT AGENCY

BACKGROUND

7.1 The Employment Development Agency (EDA) is a Crown corporation established by an act of the Legislature. The Agency's mandate as documented in the Employment Development Agency Act follows:

a) to address the problems of individuals who are hindered from gaining permanent employment by
   - providing access to training
   - identifying and developing meaningful work projects within the public sector and the community;

b) to supply individuals seeking employment assistance to such special projects as may be submitted to government for consideration; and

c) to apply principles of fairness in the provision of employment opportunities.

7.2 The Agency provides grants to non-profit, private and public sector project sponsors who qualify under one of several programs offered. In 2000-01 the Employment Development Agency delivered four main programs. The **Job Creation and Placement Program**, places adults in short-term projects sponsored by non-profit or public sector organizations. The **Jobs for Youth Program** is aimed at students or youth who are placed in non-profit, public, or private sector jobs. Through the **Forestry Program** the Agency provides a wage subsidy to individuals who carry out forestry work on Crown lands. And finally, a new **Training Program** was implemented this year which delivers upgrading and literacy training in conjunction with Holland College.

7.3 **Exhibit 7.1** provides information on expenditures of the Agency for the past three years.

EXHIBIT 7.1
EMPLOYMENT DEVELOPMENT AGENCY
EXPENDITURES ($000s)

	1998-99	1999-00	2000-01
Administration	$342	$335	$341
Job Creation and Placement	2,940	3,260	3,533
Jobs for Youth	906	914	1,100
Forestry	434	386	368
Training Program	-	-	154
Total	$4,622	$4,895	$5,496

7.4 In 2000-01 there were 1,203 projects placing 2,365 individuals. A breakdown is shown in **Exhibit 7.2**.

EXHIBIT 7.2
EMPLOYMENT DEVELOPMENT AGENCY
PROJECTS AND PLACEMENTS
2000-2001

	Projects	Placements
Job Creation and Placement	704	1501
Jobs for Youth	478	736
Forestry	21	128
Total	1203	2365

OBJECTIVES AND SCOPE

7.5 In accordance with Section 13 of the Audit Act, we conducted an examination to assess whether adequate management practices and controls were in place and consistently applied in the delivery of job creation programs through the PEI Employment Development Agency. We wanted to ensure that program objectives were clear, consistent with the Agency's legislated mandate, and reflected in the plans developed by the Agency. Finally, we followed up the implementation of recommendations resulting from our previous audit of EDA in 1996.

7.6 Our examination was performed in accordance with auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Governance and Management Structure

7.7 The Employment Development Agency Act requires the affairs of the Agency to be conducted by a Board of Directors appointed by the Lieutenant Governor in Council. In our audit report in 1996 we reported that contrary to the Act, the Board had not been appointed and we recommended that the Act be complied with. In 1998 a Board of Directors was appointed consisting of the following members:

Deputy Minister of Development and Technology;
Deputy Minister of Health and Social Services;
Deputy Minister of Transportation and Public Works;
Deputy Provincial Treasurer; and
Secretary to Cabinet Committee on Strategic Planning.

7.8 Although the term of the Board appointments extended from April 1998 to April 2001, we were advised that only one Board meeting was held.

7.9 The Employment Development Agency Act requires the Lieutenant Governor in Council to appoint an Executive Director of the Agency to be responsible for day to day operations. At the Board meeting in 1999, an organization chart was presented which showed the Deputy Minister of Development and Technology as Chief Executive Officer of the Agency, however there was no formal appointment by the Lieutenant Governor in Council as required by the Act.

7.10 The Board of Directors has not approved policies for the administration of the Agency. We were advised that certain unwritten policies exist regarding the eligibility of projects. Given the nature of the Agency and expenditures of $5.5 million, clearly documented Board policies should be in place to guide operations.

Recommendations

7.11 The Board of Directors should meet on a regular basis to conduct the affairs of the Agency as required under the Employment Development Agency Act.

7.12 In accordance with the Employment Development Agency Act, an Executive Director should be appointed by the Lieutenant Governor in Council to be responsible for the day to day administration of the Agency.

7.13 Policies for the operation and administration of the Agency should be documented and formally approved by the Board of Directors.

Setting Direction

7.14 Planning occurs at the direction of the Deputy Minister of Development and Technology and documented strategic plans have been developed by the Agency for each of the last two years. The Agency plan addresses factors such as mission, mandate, strengths and weaknesses. However, it focuses on only one key strategy, the implementation of the training initiative, and does not address other important aspects of the Agency's business. The plan is not approved by the Board of Directors and there is no formal endorsement of the plan by government.

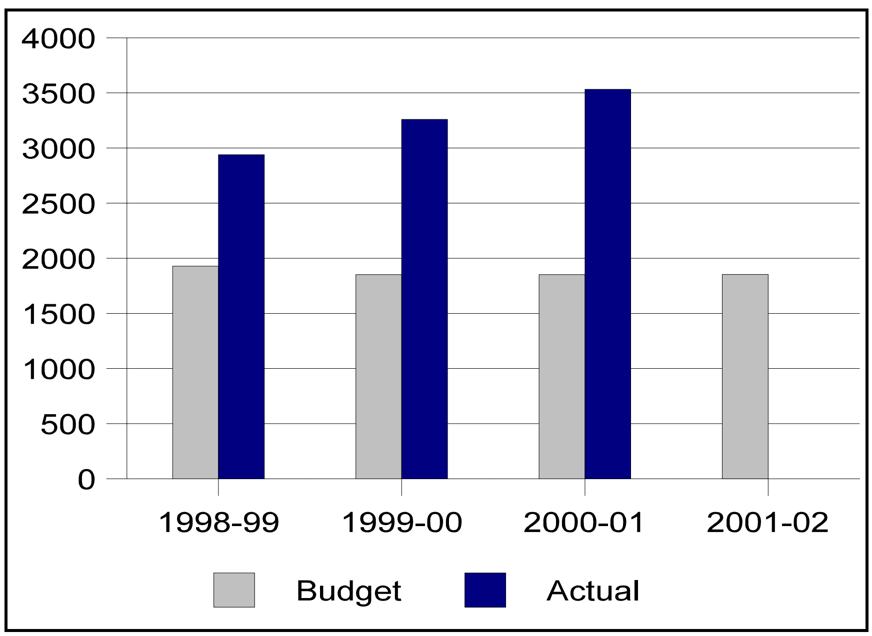
Recommendation

7.15 The plan for the Agency should be formally approved by the Board of Directors.

Budgeting

7.16 The budget for EDA is established each year in accordance with the normal budget process for government. After the budget is approved, the funding for each program is translated into weeks of employment which are allocated to each electoral district. We noted the budget approved each year for the Job Creation and Placement Program has been substantially below the previous year's actual expenditures as illustrated in **Exhibit 7.3**.

EXHIBIT 7.3
EMPLOYMENT DEVELOPMENT AGENCY
JOB CREATION AND PLACEMENT PROGRAM
EXPENDITURES ($000s)



7.17 As projects are approved the weeks of employment allocated to each electoral district are quickly committed. The MLAs then request additional funding from the Minister. In the last five years special warrants totalling over $6.3 million have been approved to cover the Agency's overexpenditures. The actual expenditures for this program for 2000-01 were $3.5 million yet the budget for 2001-02 is only $1.85 million. Given the amount of expenditures for the Job

Creation and Placement Program for the last 5 years, in addition to the large amounts of special warrants approved, the annual budget approved for the Employment Development Agency has not been realistic.

Recommendation

7.18 The budget for the Employment Development Agency should be established based on realistic expenditure requirements for its programs. Special warrants should not be used as a substitute for meaningful annual budgets.

Allocation of Funding

7.19 The Agency distributes its approved budget for the Job Creation and Placement Program by allocating specific amounts to electoral districts. There is no policy or practice approved by the Board of Directors on the allocation of funds for various programs. The actual allocation is not formally approved by the Board, the Minister or the Deputy Minister. The current informal approach of relying on MLA input and the overall assessment of the General Manager is not sufficient.

7.20 The Agency was established to address the problems of individuals in gaining employment, by providing access to training, and employment opportunities. The current allocation of funding is not based on an objective assessment of the needs in each area of the Province. Management advised that unemployment rates for many communities were obtained in 1998. Although the information was used as a general indicator, there was no direct correlation between the unemployment rates and the actual funding provided to each district.

7.21 The allocation of program funds is an important determinant in the overall cost effectiveness of the program. A well defined process that takes into consideration predetermined criteria including factors such as employment insurance claimants, welfare recipients, population and other social and demographic data would help ensure funds are targeted to the areas where need is greatest.

7.22 We made similar observations concerning the allocation of funding in our previous audit in 1996. The information obtained during this audit demonstrates that there is no change in the method of allocating program funds.

Recommendations

7.23 The allocation of funding should be based on an objective assessment of needs across the Province in relation to the mandate of the Employment Development Agency Act.

7.24 The allocation of funds should be approved by the Board of Directors.

Job Placements

7.25 The programs delivered through EDA are publicly funded job creation programs. Each Agency program requires that employees be registered with Central Jobs Registry, a database of applications maintained by EDA. The database provides a list of individuals who can be placed in jobs funded through EDA projects. We expected job placements to be made in accordance with the eligibility requirements of the program in a fair and equitable manner. Where qualifications are not a factor other criteria should be used such as application date.

7.26 We were advised that for the Job Creation and Placement Program as well as the Jobs For Youth Public Sector, the MLAs submit names of individuals from their electoral district who are then referred for job placements. In practice the MLAs play a key role in the hiring process although it is not documented in policy. Senior management stated that MLAs have a role in terms of their knowledge of their constituents and ability to rank the candidates based on need. Under its legislated mandate, the Agency is required to apply principles of fairness in the provision of employment opportunities.

Criteria for the placement of applicants has not been developed, documented, or formally approved by the Board of Directors.

7.27 We noted a number of instances where employees hired were not registered on the Central Job Registry or were registered after they had been placed on a project.

Recommendation

7.28 A job placement process including criteria for selecting applicants should be developed, documented and formally approved by the Board of Directors.

Job Creation and Placement

Project Approvals

7.29 This program represents the largest portion of program expenditures for EDA with expenditures of $3.5 million in 2000-01. Through this program the Agency provides wage subsidies to non-profit and public sector organizations for short term employment projects. Program objectives are as follows:

- to provide employment and training opportunities for employment disadvantaged Islanders in projects not likely to occur without the program's assistance;
- to enhance the employment skills of the long term unemployed; and
- to provide assistance to projects that benefit the whole community.

7.30 The intent of the program is to provide sufficient weeks of employment to allow the individual to qualify for Employment Insurance. Project proposals are received on standard application forms from non-profit and some public sector organizations. We examined a sample of projects for documented project approval, and signed contracts. We also reviewed project payments and monitoring procedures and followed up on eligibility of individuals placed on the project.

7.31 Documentation is not maintained to support the decision making process or substantiate the selection of one project over another. One way to assess whether certain criteria are consistently applied is to examine rejected applications and compare and contrast to approved applications. We were advised that rejected applications are destroyed and no record is maintained on the number or source of rejected applications. Therefore, we were unable to determine if there was a consistent process applied by the Agency in assessing applications. A summary report of approved and rejected applications is not prepared for the review and approval of the Board of Directors. This represents a weakness in the management and audit trail for decisions impacting over $3.5 million in annual expenditures.

7.32 When a project is approved, the Agency draws up a standard contract setting out the terms and conditions of the funding agreement. Contracts are not always signed prior to disbursement of funds. For one project in our sample amounting to approximately $15,000, verbal approval was given by the Agency for the project to start on December 4, the contract was drawn up dated January 4, the project was complete in April and the contract was still not signed. We noted three other projects totalling $124,000 where the contract was dated after work had begun on the project. We were advised that for projects in rural areas contracts are normally signed when a site visit is carried out, but because of limited resources site visits are not always carried out on a timely basis.

7.33 Monitoring of projects is important to ensure staff are on site and the project is carried out in accordance with the approved project application. Documentation is not maintained on site visits carried out. Therefore, we were unable to determine the number of site visits made and we could not assess the level of monitoring or the level of compliance by project clients.

Recommendations

7.34 Documentation should be maintained to demonstrate that eligibility criteria were considered before the projects were approved.

7.35 All applications, both rejected and approved, should be maintained on file at the Agency.

7.36 All contracts should be signed prior to the initial disbursement of funds to the project.

7.37 When site visits are carried out the date, time, and observations including problems encountered should be documented in the project file.

Program Guidelines

7.38 Guidelines are printed on the application forms for the various Agency programs. While these program criteria are not formally approved by the Board of Directors or the Deputy Minister, they are used by management and staff in the administration of the Agency's programs.

7.39 The Job Creation and Placement Program is designed to provide employment to individuals in projects which will have a broad-based community development potential. Private sector organizations are not eligible under this program. We noted that a producer association received significant annual funding under this program over the years, with assistance of $99,500 provided in 2000-01. As an industry association it is technically a non-profit organization however, the work performed by the individuals employed by the association is carried out on private land for the benefit of the individual producers. The substance of this arrangement is government funding of wages for work carried out on private land which is not allowed under the program.

7.40 The program guidelines indicate that projects which compete directly with the private sector will not be approved. We noted 12 projects totalling over $175,000 which appear to compete with the private sector including day cares, a kindergarten, lobster suppers, golf courses, and two inns.

Recommendations

7.41 Program guidelines should be formally approved by the Board of Directors.

7.42 In accordance with program guidelines, projects under the Job Creation and Placement Program should not be approved where work is carried out on behalf of private business.

7.43 Program guidelines, regarding competition with the private sector, should be adhered to.

Disbursements

7.44 The total amount of funding approved is agreed to in the project contract and is calculated based on the number of employees for the approved number of weeks to arrive at a project maximum. We noted four files in our sample where the amount disbursed exceeded the approved project without documented approval. Management indicated verbal approval is occasionally provided for short-term contract extensions. However, without documented approval, errors and overpayments may occur.

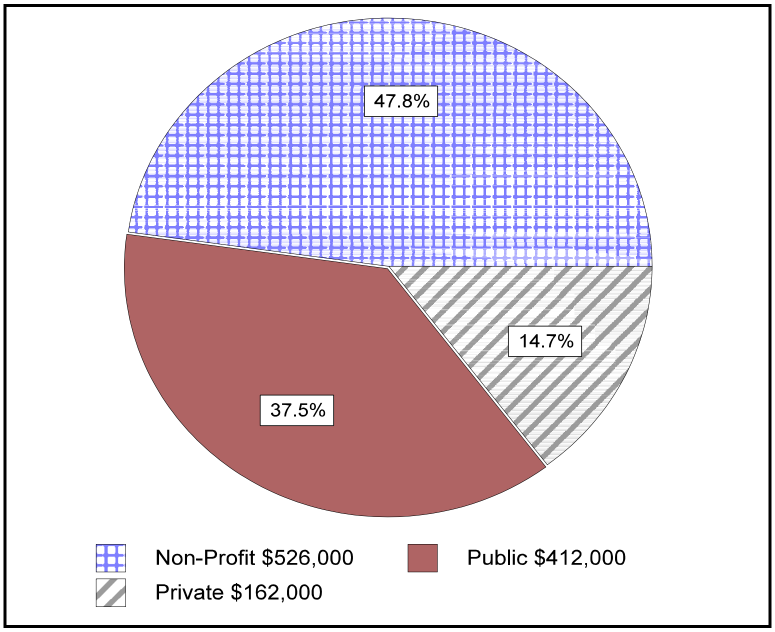
Recommendation

7.45 The amount disbursed to project sponsors should not exceed the documented funding approved for projects.

Jobs For Youth

7.46 The objective of the Jobs for Youth Program is to provide students and youth with meaningful work experience that will assist them to make the school to work transition. **Exhibit 7.4** shows the breakdown of funding by sector for the 2000-01 fiscal year.

EXHIBIT 7.4
JOBS FOR YOUTH FUNDING
2000-01



7.47 Under the public sector component of the Jobs For Youth Program, the Agency provides student employment for projects sponsored by departments and agencies of government. To qualify projects must relate to activities that are not considered part of the normal operations of the department or agency and are not normally funded through its budget. In 2000-01, 245 public sector student positions were funded through this program at a cost of $412,000.

7.48 We noted positions funded for public sector organizations were not always additional to their normal operations. For example, the funding to parks and golf courses included positions which are within the normal operations of running a golf course. In addition, where substantial funding is provided through EDA, these expenditures are not reflected in the financial position of the Ministry responsible for the delivery of the programs because the payroll is paid through EDA. Financial information reported by the Ministry will not be complete to the extent that on-going operations are funded by EDA.

7.49 Under the Jobs for Youth Private Sector Program, EDA provides a 50 percent subsidy per position as opposed to 100 percent for Jobs for Youth Public and Job for Youth Non-Profit. Therefore more employment can be created at less cost through the Private Sector Program. We noted that applications from private sector employers exceeded the number of positions that could be funded with the current budget allocation.

Recommendations

7.50 In accordance with the program guidelines, funding should only be provided by EDA to government organizations where the project is additional to their normal operations.

7.51 The cost per job to the Agency should be one factor considered during the budget process when determining the funding for the Jobs for Youth Private Sector Program.

Project Evaluation

7.52 Each project application requires the project sponsor to state the objective and anticipated results of the project, as well as the long term benefits that are expected. These factors are considered in the approval process however, there is no requirement for the project sponsor to report on the project achievements nor does the Agency attempt to evaluate the success of the projects it funds.

Recommendation

7.53 Project sponsors should be required to submit a summary of project results, including a statement of the original objectives and the results achieved. This information should be considered in the selection criteria for future projects submitted by the project sponsor.

MANAGEMENT RESPONSE

7.54 We have discussed our report with management and they indicated that the issues raised will be addressed.

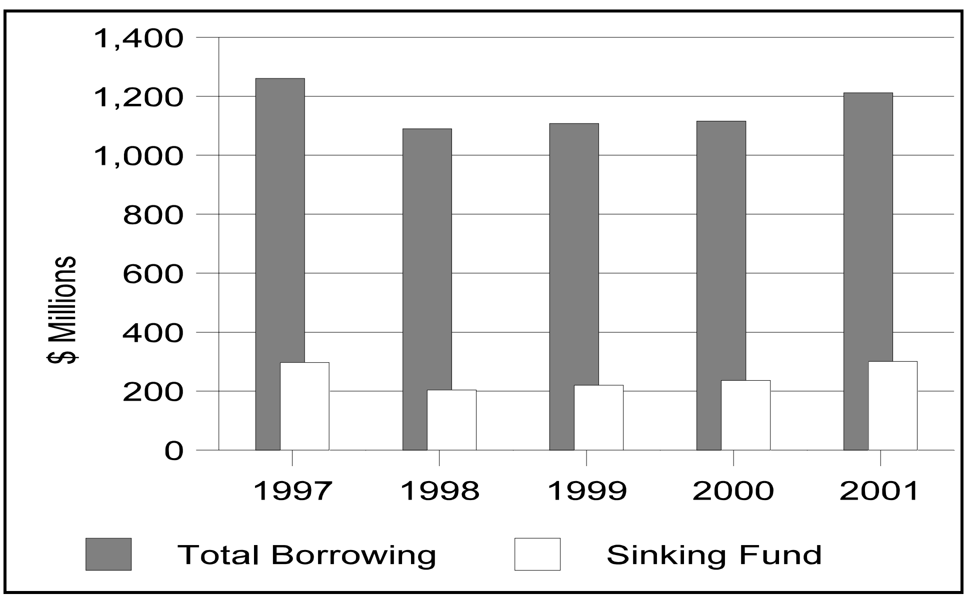
8. CASH MANAGEMENT

BACKGROUND

8.1 The management of cash and the associated financing transactions are a significant component of the overall financial management of the Province. Revenues and expenditures planned in the budget process do not occur evenly over the year. As a result, there are periods of either shortages or surpluses of cash on hand. How well Government manages day-to-day cash flows and long-term financing decisions will be reflected in the net interest costs incurred.

8.2 In addition to financing day-to-day cash deficits, it is periodically necessary to borrow money for longer terms; to provide loans to Crown corporations, to refinance maturing debt, and to fund annual deficits. At March 31, 2001 total borrowings were $1.2 billion. Sinking fund assets, which are reserved to pay off debt when it comes due, amounted to $301 million. **Exhibit 8.1** shows the trend in provincial borrowing and the sinking fund over the past five years.

EXHIBIT 8.1
PROVINCIAL BORROWING & SINKING FUND



8.3 Another way of looking at the Province's debt is the difference between the recorded assets of the Province and the recorded liabilities. At March 31, 2001, this was $1.045 billion. This net liability of the Province is called net debt which is a key measure of the Province's overall financial position.

8.4 As the amount of government debt changes, so does the cost of servicing that debt. Since 1996 debt servicing costs have decreased from $121.1 million to $107.8 million. The debt costs have decreased largely as a result of government replacing older high interest debt with newer issues at lower rates. However, interest costs still remain a major government expenditure.

8.5 The Financial Administration Act gives the authority to invest and borrow funds to the Provincial Treasurer. Within the Department of Provincial Treasury, issues of cash management and debt management are handled jointly by the Office of the Comptroller and the Fiscal Management Division.

OBJECTIVES AND SCOPE

8.6 In accordance with Section 13 of the Audit Act, we examined cash management practices and procedures. Our objective was to determine if cash management and financing activities were conducted to minimize the overall cost of debt to the Province. We examined the practices and procedures in place for the day-to-day management of cash resources and the longer term strategies for meeting the Province's financial needs. Included were activities related to planning, forecasting, investment earnings and borrowing costs.

8.7 Our examination was performed in accordance with auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

DETAILED AUDIT OBSERVATIONS

Cash Management Policies

8.8 To ensure cash is managed appropriately there should be a clear statement of cash management objectives approved by senior management. In October 2000, the Fiscal Management Division of the Department of the Provincial Treasury completed a draft Cash Management/Banking Policy and Procedures Manual. The policy manual covers recommended policies and procedures in the areas of banking operations, money market instruments, Provincial Treasury loans and cash management. We were advised that senior management will formally approve the manual.

8.9 The policy manual defines objectives for cash management to best utilize cash in order to minimize interest charges on debt and maximize earnings on any surplus cash holdings. The goal is to protect the Province's budgetary surplus/deficit position from adverse fluctuations in interest rates.

8.10 Cash management policies and procedures in most government departments and Crown corporations were not documented. For example, there was no documented requirement that revenues be collected and deposited on a timely basis. In order for the full benefits of cash management to be realized departments and agencies should have policies and procedures that complement those of the Fiscal Management Division.

Recommendation

8.11 Cash management policies and procedures applicable to government departments and agencies should be communicated and implementation should be monitored by Provincial Treasury.

Cash Forecasting

8.12 Cash forecasting is important on a day-to-day basis to determine daily needs for short-term borrowings or investments. In the longer term, forecasts are needed to balance long-term debenture issues with the Province's debenture portfolio. We examined the processes used by the Fiscal Management Division to forecast its cash position and requirements.

8.13 Cash forecasting by the Fiscal Management Division is based primarily on a one-year daily forecasting model. In addition to daily forecasting, the model forms the basis for determining long-term financing needs. We compared the original forecast for 2000-01 to the actual results achieved. While some short-term variations were found, these were relatively minor and balanced out by the end of the year.

Short-Term Borrowing and Investment Options

8.14 For short-term cash management, Fiscal Management generally uses Call Loans if there is extra cash on hand and Treasury Notes if there are cash shortfalls.

8.15 Small fluctuations in cash balances are readily met by either accumulating cash in the Province's bank account or using the bank overdraft. For borrowing, lower rates can be obtained by issuing Treasury Notes. Provincial Treasury issues Treasury Notes to come due on the dates of major cash inflows, normally Federal revenues or anticipated debenture issuance dates. By using Treasury Notes rather than bank overdrafts the Province saves 1.5 percent in interest charges.

8.16 Call loans are investments which are normally purchased from the bank when the Province has surplus cash available for a short period. Call loans yield approximately 0.2 percent more than bank deposits.

8.17 As part of our audit, we examined the management of short-term cash resources. We expected to find cash balances maintained near zero with surplus cash invested in Call Loans and borrowings financed by Treasury Notes in such a manner as to minimize net interest costs.

8.18 The daily balances for the bank account, Treasury Notes and Call Loans were reviewed for the period February 1, 2000 to August 31, 2001. During that time, the fluctuations in cash balances were reasonable given the unpredictable changes in cash flow that occur from day to day.

Banking Services

8.19 As part of our audit of Cash Management in 1996, we recommended that banking services be competitively bid on a regular basis. At that time, the contract being used had originally been awarded in 1987. It was extended on two occasions after the original contract expired in 1993.

8.20 The tendering process for the current contract was initiated in 1995 and took several years to complete. In July 1999, Treasury Board authorized Provincial Treasury to issue a Request for Information for banking services, a significant component of which was to improve cash management by pooling the cash balances of departments, Crown corporations and agencies. The final Request for Proposals for banking services was subsequently issued to the financial institutions in December 1999.

8.21 Provincial Treasury's objectives were to obtain cost effective banking services; to strengthen the management of cash by the Province, its agencies, and Crown corporations; and to gain flexibility as government implemented electronic commerce.

8.22 The Province awarded the successful bidder a four year contract with the provision for a two year extension. At the time of this audit, the successful bidder had been providing banking services since November 2000, but the contract had not been finalized.

8.23 Seven years lapsed between the time the original contract expired in 1993 and a new contract was awarded. The annual cost for banking services for the Province and Crown corporations estimated during the tendering process, which began in 1995, was $360,000. Tender estimates were in the range of $200,000 to $250,000 annually and current estimates by Fiscal Management indicate actual costs will be lower. This is a difference of over $100,000 annually that may have been saved had the tender process been undertaken earlier.

8.24 In our previous audit report, we recommended that the Province take steps to manage government-wide cash resources more effectively. A major potential benefit of the recent bank tender is the pooling of cash balances for the Province and Crown corporations to determine daily interest. This will reduce interest costs on provincial borrowings because the cash balances held by Crown corporations will offset overdrafts of the Province. We examined cash balances for the pooled accounts for the period April 1, 2001 to August 31, 2001. The savings in interest as a result of pooling are estimated at $40,000 annually.

8.25 The draft contract to provide banking services contains numerous fees for various services. The Division does not routinely verify that the Province is being charged the correct fees. Bank fees are approximately $200,000 per year and should be verified.

Recommendations

8.26 Provincial Treasury should tender banking services before the completion of each banking services contract.

8.27 The current draft contract for banking services should be finalized as a legally binding contract between the Province and the banking institution.

8.28 Procedures should be implemented to verify that bank fees charged are in accordance with the banking services contract.

Debt Management

8.29 Debt management relates to how government raises funds to meet its financial requirements and how it determines the composition of public debt. We expected to find clear objectives, strategies, and procedures for minimizing the cost of Provincial borrowing at acceptable levels of risk. The Province's risk preferences can range between the stability inherent in long-term debt and the lower interest rates and greater volatility normally associated with short-term debt. The objectives and strategies should provide direction in managing debt in accordance with risk preferences.

8.30 In June 2001, Fiscal Management Division finalized the Prince Edward Island Debt Management Strategy. The objectives of the strategy were to provide stable, low-cost funding at an acceptable level of risk.

8.31 Traditionally, Provincial debt has been made up of long-term debentures, Canada Pension Plan debentures, Provincial Deposit Receipts (PDRs) and Treasury Notes. In our 1996 audit of cash management, we observed that PDRs were more costly than Treasury Notes and recommended that Provincial Treasury take steps to ensure that PDRs were competitive. Subsequently, it was decided to phase out PDRs by March 31, 2002. This decision was based on the higher interest rates of PDRs compared to similar debt and the lack of control over the timing of PDR contributions and withdrawals.

8.32 Canada Pension Plan debentures were issued to provinces when the plan had surplus funds. As at March 31, 2001 Canada Pension Plan debentures issued to PEI were $140 million. These are now available for roll-over for another 20 years as they come due. Provincial Treasury's strategy is to roll over these debentures while the option is available. Savings result because there are no commission costs as there would be for a new debenture issue.

8.33 A major component of the Debt Management Strategy is the Debt Reduction Program approved by Treasury Board in June 2001. The program is possible, in part, because the Province holds a Sinking Fund for Canada Pension Plan debentures and a Market Contingency Fund which are not required by the Province's debt agreements. These funds were combined into a Debt Reduction Fund and will be used to reduce outstanding debt as it becomes due. It should be emphasized that this does not result in any decrease in the net debt because financial assets of government are reduced as well.

8.34 Provincial Treasury indicated that there will be a reduction of annual interest expenditures as a result of using the sinking fund investments to retire the debentures, rather than issuing new debt.

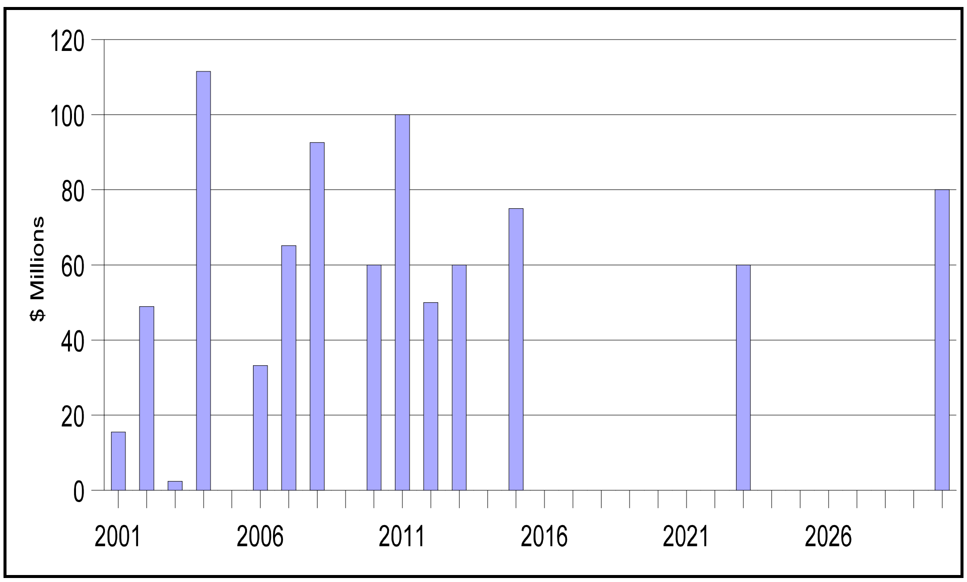
Debt Issuance

8.35 The Province normally issues a major debenture every one or two years depending on cash requirements and market conditions. We expected to find debt issues supported by cash flow forecasts, terms determined by a competitive process, and debt issues timed to minimize financing costs.

8.36 Debentures should be issued at terms that balance interest cost and risk. Longer term debt normally has a higher interest rate but the rate is fixed for a longer period. Short-term debt usually has a lower interest rate which fluctuates as rates rise and fall. The financing decisions are similar to those homeowners make with respect to their mortgages. The homeowner locked in for the longer term is protected from interest rate increases but also loses any benefit if interest rates decline. Unlike most homeowners, the Province has the advantage of holding a portfolio of debentures and can further reduce its risk by staggering the maturities.

8.37 The current retirement dates of provincial debt are shown in **Exhibit 8.2**. The Province has a number of debentures which fall due in eleven of the next fourteen years. However, after that there are only two years when debentures are maturing. To balance the Province's exposure to interest rate fluctuations, debenture issues should be planned to mature on a regular schedule. Management indicated it is their intention to issue further debentures with twenty to thirty year maturities.

EXHIBIT 8.2
DEBENTURE MATURITY SCHEDULE



Lending Activities

8.38 Crown corporations held approximately $330 million in debt at March 31, 2001. Approximately 60 percent of the debt is provided by the Province through loans from Provincial Treasury. Treasury Board

Policy requires that an interest rate, equivalent to the cost of borrowing plus one quarter of a percent, be charged on loans to Crown corporations. We reviewed the interest rates charged on loans to Crown corporations and found they were in accordance with policy.

Fleet Credit Cards

8.39 Credit cards are used by government when employees operate government vehicles. In accordance with the Treasury Board Policy and Procedures Manual, fleet credit cards are issued to departments for the purchase of fuel, lubricating products, maintenance and repairs. Purchases on fleet credit cards in 2000-01 totalled $545,000.

8.40 A number of records are maintained related to credit card usage. When an employee is assigned a vehicle they are required by Treasury Board Policy to sign a Government Vehicle Assigned Acknowledgment and a Fleet Credit Card Acknowledgment which cover appropriate usage. Another requirement of the Treasury Board Policy is that a Monthly Usage Ticket Log Report be maintained. The vehicle operator is required to submit a log and receipts each month for verification of expenditures and charges by the supplier.

8.41 We reviewed credit card usage and the supporting financial system for a sample of vehicles in the major departments. In most departments, we found that controls were adequate and procedures were followed. However, we noted the following deficiencies:

- the vehicle and credit card acknowledgments were not completed for all drivers. Some employees have not completed the formal acknowledgment of government requirements for operating a motor vehicle; and
- discrepancies were noted between the Oracle Financial System and the Fleet Management System which could lead to errors when analysing fleet costs.

Recommendations

8.42 In accordance with the Treasury Board Policy and Procedures Manual each department should ensure that all government credit card users read and sign the Credit Card Acknowledgement form.

8.43 Each department should ensure that credit card slips are matched to credit card billings. Information produced by the Fleet Management System should be reconciled to the Oracle Financial System to ensure any errors or discrepancies are detected and appropriate action taken.

MANAGEMENT RESPONSE

8.44 We discussed our report with management and they intend to address the issues raised.

9. EVERGREEN TECHNOLOGY ASSET MANAGEMENT PROGRAM

BACKGROUND

9.1 In May 1996, the government of Prince Edward Island represented by Enterprise PEI issued a Request For Proposal (RFP) for Partnership Development in the information technology sector. The RFP was issued to four companies. The broad objectives of the RFP were to create employment opportunities and economic wealth within the Province. Specific objectives were to:

- increase the presence of information technology companies in PEI;
- create or enhance business opportunities for PEI information technology products or services at a local, national or international level;
- leverage the use of products or services from the information technology companies, as it related to the enhanced delivery of services within public or private sector organizations within and outside PEI;
- develop advanced training opportunities for employers through institutions such as Holland College and the University of Prince Edward Island;
- leverage the revenue opportunities that exist from marketing products or services that are presently available within the organizations; and
- create innovative partnerships between the public and private sectors.

9.2 Respondents were asked to provide creative proposals for partnership regarding the provision of services to support existing computer programs used by government departments, the Health and Social Services Sector and Holland College. Respondents were also asked to indicate new ways of providing the following services; network support, end-user support, database management support, business process re-engineering, and applications development.

9.3 Two proposals were received from two partnerships. One of the proposals was recommended to Executive Council on August 29, 1996. Executive Council approved the recommendation and directed that Enterprise PEI enter into negotiations with the partnership. One of the consortium partners was subsequently replaced by a different partner who offered an additional program for acquiring and leasing computer equipment, the Evergreen Technology Asset Management Program. After considerable negotiations and evaluations the Minister was authorized by an Executive Council Decision dated July 27, 1999 to enter into an agreement with the consortium.

9.4 Additional negotiations between the Province and the consortium led to an agreement dated August 30, 1999. The agreement covers the provision of Oracle, Network Management, and Evergreen services to government and is for a period of four years with a provision for yearly renewals after that time.

9.5 In addition to this agreement a separate Master Lease Agreement was signed by the Province with one of the consortium partners on January 24, 2000 for the Evergreen Technology Asset Management Program. This agreement specifically covers the acquisition of computer hardware categorized as desktop computers, servers, printers and notebook computers from this supplier. In addition, the agreement allows the Province to acquire from the supplier other equipment not specifically listed.

9.6 The Evergreen Technology Asset Management Program is coordinated by Technology PEI Inc., which is an incorporated subsidiary of PEI Business Development Inc., a provincial Crown corporation. The program consists of two main components:

- the acquisition by government of desktop computers, servers, printers and notebook computers; and
- an asset tracking program to manage government’s disposal and replacement cycles, hardware upgrade strategies and ongoing support costs.

The purpose of the program is to assist the Province in keeping its technology assets current.

9.7 The program is administered on behalf of government by the Asset Management Committee which consists of six members representing government departments. The Committee, which was established with Treasury Board approval, is chaired by a special projects officer who reports to the CEO of Technology PEI. The CEO reports to the Deputy Minister of Development and Technology. The Committee is responsible for overseeing management of the program, maintaining equipment standards, establishing administrative procedures, allocating technology funding and implementing the asset tracking program.

9.8 The program currently applies to all government departments and is available to health regions, school boards and PEI Business Development Inc. The last three organizations have used the program but have not adopted it for all computer acquisitions. Other Crown corporations and agencies can request participation in the program.

9.9 In the past, computer equipment was purchased through a standing government tender or by obtaining competitive quotes from suppliers. The Evergreen Program, implemented in October 1999, provides for the acquisition of desktops, servers, printers and notebook computers through a three-year lease agreement with a single supplier. At the end of each lease, departments have the option to purchase the equipment, obtain replacements under new lease terms or re-lease for one year based on residual value.

9.10 There is also an option of purchasing instead of leasing the assets under certain restricted conditions. For example, organizations which receive funding of 50 percent or greater for computer equipment acquisitions from non-government of PEI organizations, such as the Federal government, may purchase rather than lease the equipment. The equipment, however, is to be purchased through the Evergreen arrangement. In addition, low end desktop printers costing less than $500 can be purchased instead of leased.

OBJECTIVES AND SCOPE

9.11 In accordance with Section 13 of the Audit Act, we examined the Evergreen Technology Asset Management Program. Our objective was to determine if services were received in accordance with the agreement and if computer equipment was acquired economically.

9.12 Our examination was performed in accordance with auditing standards of the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. As part of our examination, we interviewed staff, reviewed documentation and surveyed MIS Coordinators in the departments.

DETAILED AUDIT OBSERVATIONS

Public Purchasing Act

9.13 The Evergreen Technology Asset Management Program was established as the result of Government's desire for Partnership Development in the IT sector. The Program was not originally part of either proposal evaluated by government but emerged as an add on to the successful proposal when the consortium replaced one of its partners. The acquisition of computer equipment by government was not contemplated when the original Request for Proposal was issued. This resulted in the Evergreen component of the agreement not being publicly tendered even though costs were projected to exceed $2 million annually.

9.14 Government's approval of the program altered the computer purchasing practices of all government departments, who previously purchased their equipment following the requirements of the Public Purchasing Act. The Public Purchasing Act and Regulations require the following concerning the purchase of equipment:

- purchases in excess of $1,500 require tenders to be requested from a minimum of three vendors; and
- all purchases valued at $25,000 or more shall be advertised publicly.

The requirement exists to help ensure that goods are acquired by government in the most economical manner.

9.15 The Proposal Evaluation Team, which reviewed the proposals, recommended that the Public Purchasing Act Regulations be modified to exempt the purchase of computer equipment covered under the Evergreen Program. This had not been done at the time of our review.

Recommendation

9.16 The Public Purchasing Act should be followed for all equipment purchases.

Proposal Evaluation

9.17 The decision by government to enter into the current arrangement was in part based on the financial information on the Evergreen Program presented by the evaluation team. We found the financial information presented by the evaluation team to be incomplete. For instance, the evaluation report compared past computer equipment costs of $3 million annually to future annual lease payments of $2.1 million under the new program. However, the Evergreen Program only covers desktops, notebooks, servers and printers and not all computer items which were purchased with the $3 million in past years. Therefore, the evaluation team's comparison of total expected lease payments of $2.1 million per year to past expenditures of $3 million was not valid.

9.18 In addition, the evaluation team estimated the lease payments to be $2.1 million per year. The $2.1 million was not supported with detailed calculations. It was based on the previous budget of $1.1 million plus an additional $1 million to improve the refresh rate on technology. The evaluation team estimated the same annual lease amounts over the four years and did not allow for the gradual change to leased computers over a period of several years. The actual lease expenditures for the first full year of the program were only $0.74 million significantly lower than the $2.1 million presented in the analysis.

9.19 The evaluation team did not comment on the financing costs of leasing computer equipment. As part of our review of the evaluation team's report we prepared our own estimates of the cost of financing the leases for computer equipment. Based on typical equipment costs and a residual value of 10 percent, the standard lease payment translates into a financing cost of approximately 11 percent. This is higher than government's normal financing costs. For example, recent financing costs were 5 to 5.5 percent for Provincial Deposit Receipts and 6.8 percent for long-term bonds. Therefore, the additional annual cost of the Evergreen Program to the Province is at least 4.2 percent of the value of the equipment leased. This will translate to additional annual financing costs of $85,000 to the Province when the program becomes fully operational.

9.20 We also compared the schedule of prices for computer equipment listed in the Evergreen Program to the prices offered by other computer equipment suppliers. Our comparisons indicated that the Evergreen Program prices were competitive with those of local vendors for similar equipment. According to management, an objective of the Evergreen Program supplier is to meet or beat prices of other computer vendors. Based on the responses to our survey of the eleven MIS Coordinators in departments, prices were competitive but not always the lowest available. Half of the respondents indicated that they had been quoted lower prices from other sources. This could be caused by comparing similar but not identical computers, special prices being made available to the education sector, or price reductions by vendors over short periods of time compared to the longer time periods for price changes in the Evergreen Program.

9.21 From our review of the proposal and the evaluation team's report, no financial benefits to government as a direct result of the Evergreen Program could be demonstrated, nor could management provide any to us when we asked for them. We would expect financial benefits to be thoroughly demonstrated before government enters into such a program with a single supplier without seeking competitive proposals.

Recommendation

9.22 When economic development initiatives are being considered by government, various alternatives, including complete and accurate cost estimates, should be presented and compared before decisions are made.

Asset Management System

9.23 According to management and the report of the Proposal Evaluation Team, a major benefit expected from the Evergreen Program was a technology asset management system which would maintain information for planning the replacement of equipment. It would also assist in keeping track of equipment. The software which the supplier planned to use for this purpose was not suitable because it was designed to manage leases only instead of a combination of leased and purchased equipment. A replacement system is currently being developed to meet the Province's needs. When our audit work was completed in June 2001, the system was still not implemented. According to the agreement, this system should have been in place when the Evergreen Program began in October 1999.

Recommendation

9.24 Management should ensure that the terms of the agreement, regarding the Asset Management System, are implemented.

Survey of MIS Coordinators

9.25 There are eleven MIS Coordinators in the various departments of government who are responsible for managing the computer resources of their respective departments.

9.26 We contacted them to get their views on how well the Evergreen Program met the Information Technology needs of their departments. All of the MIS Coordinators informed us that their departments are using the Evergreen Program for computer acquisitions.

9.27 When questioned, seven of the eleven coordinators were not satisfied with the Program. The reasons given by those dissatisfied coordinators included: the time to deliver the products was too long; poor service from the suppliers in correcting problems before the equipment was usable; prices, in some instances, were higher than those available from other suppliers; and the three year lease commitments required by the Program reduce the flexibility for obtaining funds from other areas of the budget for computer acquisitions.

Recommendation

9.28 Evergreen Program Management should consult with MIS Coordinators to ensure problems and issues encountered by Departments related to the implementation of the Evergreen Program are addressed.

MANAGEMENT RESPONSE

9.29 We have discussed our report with management and they agreed with the issues raised.

10. CLAIMS PROCESSING SYSTEM FOR PHYSICIAN PAYMENTS

BACKGROUND

10.1 The Department of Health and Social Services pays for basic health services provided by physicians to residents of Prince Edward Island. The rates for various services are negotiated by Government with the Medical Society. The terms are documented in the Master Agreement between the Medical Society of Prince Edward Island and the Government of Prince Edward Island. The total amount of funding established in the agreement for health services provided by physicians for the year ended March 31, 2001 was $34.7 million.

10.2 The Department implemented a new Claims Processing System (CPS) for physician payments in January 2000. The previous system was not Y2K compliant.

10.3 Claims are initiated from computerized systems in physicians' offices. The claims are processed by the CPS which ensures that certain eligibility requirements are met. Payments are processed based on the tariff rates in the Master Agreement.

OBJECTIVES AND SCOPE

10.4 Under authority of Section 13 of the Audit Act, we conducted an examination of the Physician Claims Processing System. The objective of our audit was to assess the current status of the processing and reporting components of the system as they relate to in-province physician payments. We also examined the process for the retention of holdbacks from physician payments.

DETAILED AUDIT OBSERVATIONS

Claim Processing

10.5 Physicians submit electronic claims data to the claim processing system. Claims are then assessed by the computer program to ensure they follow the assessment rules. The application of rules to the claims determines their subsequent processing. Claims which are flagged for review by assessors are put on assessment status and held, while claims which have met the criteria are approved for payment. Payments are processed on a biweekly basis.

10.6 There were insufficient procedures to ensure the completeness of data in the system. In order to ensure all claims are processed, control totals should be recorded on initial as well as paid claims and balancing procedures should be used from one pay period to the next. Control total balancing procedures would provide assurance that all claims entered in the system are either paid or awaiting assessment. In addition it would ensure that all claims information is retained in the system to be used in applying computer assessment routines as well as generating reports.

Recommendation

10.7 Control totals should be calculated for each claim processing cycle and balancing procedures should be implemented to ensure there is no loss of records in the system.

Physician Systems

10.8 The Master Agreement between the Medical Society of Prince Edward Island and the Government of Prince Edward Island provides for a Joint Consultation Committee to review matters of mutual concern to the Department and the Medical Society. Our review of Joint Consultation Committee minutes and discussions with staff identified a number of problems experienced by physicians. These included problems with payment information, difficulties in obtaining claim status information, and difficulties in updating files to provide current patient eligibility information. At the time of our audit, the Department had established a Communications Group including representatives of software and system vendors, physicians, the Medical Society and the Department. This Group is expected to more clearly define and address problems experienced at physician sites.

Holdbacks and Rebates

10.9 Under the Master Agreement between the Medical Society of Prince Edward Island and the Government of Prince Edward Island, which was in effect at the time of our audit, expenditures over approved funding limits were equally shared by the Medical Society and the Department. In order to provide for the Medical Society's share of overexpenditures, a four percent holdback was applied to physician payments. If the entire holdback amounts were not required to meet the Medical Society's share of overexpenditures, a rebate was paid to physicians. In addition to holdbacks, payments to individual physicians are discounted when a certain threshold level is reached.

10.10 A total of $124,400 should have been discounted in 1999-2000 because individual threshold levels had been reached. However, $104,500 of the discounts were not deducted from the payments as required. The Department advised us that recoveries will be made from future payments to the physicians, and program changes will be made to the system.

10.11 We observed that even though all the discounted amounts were not deducted from physicians, a payment of $124,400 related to threshold discounts was distributed to other physicians along with the holdback rebates. The Master Agreement does not indicate whether the distribution made with respect to threshold discounts was appropriate.

10.12 Since our audit, a new agreement between the Medical Society and the Government has taken effect. The latest agreement has eliminated the holdback provisions and we were advised that the threshold discounts will be retained by the Department.

Recommendation

10.13 The Department should ensure the necessary changes are made to the Claims Processing System so that threshold discounts are processed correctly.

Reporting

10.14 We examined the various management reports generated by the CPS and used by the Department. We noted inconsistencies in the reporting of holdback adjustments and threshold discounts. In one report we noted that the columns did not add to the report totals presented. Although these inconsistencies do not result in inaccurate net payment amounts to physicians, the differences in presentation and inaccuracies increase the potential for error in subsequent use of information and therefore require correction.

10.15 Year-to-Date Payment by Physician Reports are produced from the CPS and are used to prepare information for presentation at meetings of the Joint Consultation Committee. The report data is not reconciled to information on payment reports or control total information. Reconciliation procedures would provide additional assurance on the accuracy and integrity of summary report information.

10.16 There are a number of different types of transactions processed through the system. However, the reports produced from the CPS do not provide details on different payment types. Additional information in reports generated from the system would be useful to assess reasonableness of data, identify problems and provide additional management information.

Recommendation

10.17 The reports produced by the Claims Processing System should be improved so that data is presented consistently, totals agree with supporting data, year-to-date payment totals agree with bank payment totals, and complete information on the various types of payments is provided.

Other

10.18 During our audit we reviewed the access to the system. Access restrictions control the read and modify capabilities of users for various components of the system. At the time of our audit there were few restrictions placed on users with many having both read and modify capabilities. Management plans to restrict system access. Implementation of these restrictions will reduce access to the system and reduce the potential for error.

10.19 The CPS records a user identification when records are updated, however, instances were noted where the system recorded a different user than the individual who actually updated the record.

Recommendations

10.20 Modification capabilities should be restricted to a small number of individuals.

10.21 The system should identify individual users who have updated the records.

MANAGEMENT RESPONSE

10.22 Management agrees with our report and has provided a written response indicating that action has already been taken to address most of the recommendations. Further action is intended when time and resources permit.

11. HEALTH INFORMATICS

BACKGROUND

11.1 The Health Informatics Section of the Department of Health and Social Services is responsible for the overall planning, implementation, support, and management of the health system's information technology infrastructure and information resources. This includes systems used by both the Department and the Regional Health Authorities which together form the Island Health Information System (IHIS). Expenditures for the Section were $4.4 million in 2000-01.

11.2 Prince Edward Island has a province-wide health information system. The system provides health and social services professionals with access to health information to enhance service quality, effectiveness and efficiency. Facilities and services connected on the IHIS include: acute care hospitals, continuing care services, public health nursing, mental health services, physician services, pharmacies, vital statistics, addiction services, housing services, child and family services, and the regional administrative offices.

11.3 The overall direction for the IHIS is the responsibility of the Executive Steering Committee which includes five regional CEOs, eight Department Directors, the Assistant Deputy Minister, and the Deputy Minister. The mandate for the committee includes: setting a vision and strategy for the evolution of the IHIS; determining priorities for projects and IHIS budgets; and monitoring project performance.

OBJECTIVE AND SCOPE

11.4 In accordance with Section 13 of the Audit Act, we examined the Health Informatics Section. Our objective was to assess the management practices of the Section. We did not audit the many computer systems comprising the Island Health Information System.

DETAILED AUDIT OBSERVATIONS

Planning

11.5 The Health Informatics Section supports the planning for the Island Health Information System. Resources required to assist in planning come from throughout the health care system.

11.6 A significant input to the planning process was the Canada Health Infoway Report which was prepared by the Advisory Council on Health Infrastructure. The Council was established by the Federal Minister of Health to provide advice and recommendations on the development of a comprehensive Canadian health information infrastructure.

11.7 A Health Informatics Review was conducted by a consulting firm in June 2000, with the objective of reviewing the role of the Section in the evolution of the IHIS. This review was also considered in the Section's planning process.

11.8 The current plan for the health information system is an update of the previous plan dated May 1997. The plan identifies an implementation strategy which includes completing any projects currently in progress. Examples of projects include: the development of an information resource management plan; a wide area network review; health financial system upgrade; case management project; common client registry; and a radiology project.

11.9 In addition to the IHIS plan there is, at a higher level, the Health Sector Strategic Plan which was in draft form at the time of our review and has been subsequently finalized. Management informed us that after the Health Sector Strategic Plan is completed the IHIS Strategic Plan will be adjusted to ensure the priorities identified in the Health Sector Plan are included.

Recommendation

11.10 Health Informatics management should ensure the directions identified in the Island Health Information System Strategic Plan are consistent with the strategic plan for the Health Sector.

Expenditures

11.11 The expenditures for Health Informatics in 2000-01 were $4.4 million and are included in **Exhibit 11.1**. Health Informatics provides its services through a combination of staff and external service providers. Staff plan and coordinate the various computerized systems while external service providers are hired under the direction of Health Informatics staff to conduct studies, maintain systems and provide support for computerized systems.

EXHIBIT 11.1
HEALTH INFORMATICS SECTION

Expenditures	**2000-01 (Millions)**
Professional and Contract Services	$1.9
Salaries	1.0
Materials Supplies and Services	.9
Equipment	.4
Administration	.1
Travel and Training	.1
	$4.4

11.12 We examined a sample of expenditures to ensure appropriate purchasing practices were followed; approvals were in accordance with the signing authority policy; contracts were utilized; and payments were adequately supported.

11.13 The Section paid $305,000 to an external supplier for network management services. Network management services consists of monitoring the Island Health Information System hardware to ensure problems are reported and corrected. These services are monitored by joint committees which include staff of the Department and the vendor.

11.14 There are a number of concerns regarding network management services including:

- reporting is not consolidated into useful information for monitoring and planning purposes; and
- the supplier is not yet providing a number of services listed in the contract, even though the full price for services is being paid.

In addition, a report prepared by consultants for Technology PEI in August 2001 indicated that network management services have developed more slowly than either government or the service provider anticipated or desired. Specifically the report states that at the half-way point of the Agreement, health staff were of the opinion that the infrastructure and process have only now reached the level where the system can be considered operational, and that numerous reporting and day-to-day management issues must still be worked out.

11.15 Payments for line charges totalled approximately $406,000. The lines allow the various installations of the IHIS to connect to each other. The cost of data lines includes a fixed charge, plus distance charges of approximately $44,000 per year. Additional payments for retail pharmacy connections totalling $60,000 per year were paid. These are paid monthly for approximately 50 pharmacy connections at a rate of $100 per month. There was no signed agreement to cover these payments.

11.16 Expenditures of the Section include a number of payments to suppliers external to the Department of Health and Social Services for such items as service level agreements, help desk support and program support. The IHIS plan indicates that while these services are typically an area that could be considered for outsourcing, they can be provided internally more efficiently and effectively. The various service agreements with external providers will be coming due over the next few years. This would be an opportune time for management to determine if services have been satisfactory and explore alternative options.

Recommendations

11.17 The Section should ensure that all of the services contained in the network management services agreement are being provided by the supplier.

11.18 The Section should ensure that signed agreements are in place to support payments for services received.

11.19 Current service agreements should be reviewed before they are renewed over the next few years to determine if they represent the best use of Department resources.

Project Management

11.20 A project management process is necessary to ensure projects are initiated, planned, implemented, monitored and evaluated in an orderly way. During 2000-01, the Health Informatics Section spent approximately $441,000 for over 14 projects. As part of our audit we reviewed a sample of projects to ensure requirements were clearly defined; acquisition processes were appropriate; contracts were used; projects were monitored; contract requirements were met; and evaluations were conducted. Our observations are noted in the following paragraphs.

11.21 During the period of our review, we noted that projects were approved by Section management. Subsequent to our review, projects require the approval of the Executive Steering Committee.

11.22 To ensure services are acquired economically, a competitive process is needed in the selection of consultants. In one project that we reviewed, we noted that a competitive process was only used for part of the project costing approximately $51,000. The remaining consulting services we reviewed costing approximately $260,000 were acquired without a competitive process because Section management indicated the consultants could complete the assignments or had done previous work related to the project. Treasury Board Policy indicates that as a standard practice, contract services should be obtained through the use of a competitive process.

11.23 The projects we reviewed were not evaluated by management when completed. Evaluation is important to ensure the lessons learned from each completed project can be used to improve subsequent projects. The newly adopted project management methodology requires a post implementation review at least three months after project completion.

11.24 The Health Informatics project management methodology was developed with the help of a consultant. The methodology was dated June 2001 and it is expected that all future projects will follow the methodology. We expect that the implementation of the project management methodology will correct the deficiencies identified.

Recommendations

11.25 The Section should use competitive processes to acquire consultants.

11.26 Evaluations should be conducted for each project completed.

MANAGEMENT RESPONSE

11.27 We have discussed our report with management and they indicated that the issues raised will be addressed.

FINANCIAL STATEMENT AUDITS

12. INTRODUCTION TO FINANCIAL STATEMENT AUDITS

INTRODUCTION

12.1 Section 13 of the Audit Act establishes the Auditor General's mandate to perform a financial audit of the Public Accounts, as well as any Crown controlled or owned corporations, including trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

12.2 Financial statements of the Province are the responsibility of management. This responsibility includes ensuring the integrity and fairness of the information presented. We provide assurance on the reliability of financial statements which enhances their credibility and usefulness to legislators and the public.

12.3 The auditor is independent of management and can objectively assess the accounting principles used and the estimates and other decisions made by management as reflected in the financial statements. In each audit an examination of the entity's accounts is carried out in accordance with generally accepted auditing standards.

12.4 In addition to issuing an Auditor's Report on the financial statements, a management letter addressed to the department or agency is normally provided which identifies any weaknesses in financial controls and accounting records and makes recommendations for improvements.

12.5 In the following sections of this report we provide summary information on our audits of the Public Accounts and Appropriations.

13. PUBLIC ACCOUNTS

BACKGROUND

13.1 The Public Accounts include the annual financial statements of government and are the primary source of information on government's stewardship of public funds both to Islanders and to the Legislative Assembly.

13.2 The Public Accounts are prepared by the Comptroller and tabled by the Provincial Treasurer in the Legislature as required by the Financial Administration Act. According to the Act, the Public Accounts must contain the Financial Statements of the Operating Fund and the Consolidated (Summary) Financial Statements of the Province, along with any other statement required by Act to be presented. The Consolidated (Summary) Financial Statements provide the most complete information about the operating results and financial position of the Province as they consolidate the accounts of the Operating Fund with those of the Crown corporations and agencies.

13.3 The Public Accounts for the year ended March 31, 2001 consist of two volumes:

- Volume l contains the Consolidated (Summary) and the Operating Fund audited financial statements.

- Volume ll contains the audited financial statements of the Crown corporations and agencies.

OBJECTIVES AND SCOPE

13.4 In accordance with the Audit Act, we performed an audit of the Public Accounts of the Province for the year ended March 31, 2001. The objective of our audit was to express an opinion on the financial position and operating results of the Government. Our audit reports on the Consolidated (Summary) financial statements and the Operating Fund financial statements for the year ended March 31, 2001 did not contain any qualifications or reservations.

13.5 Under Section 17 of the Audit Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General relies on the Auditor's Report for each of these entities when performing the audit of the Public Accounts.

13.6 This report contains comments and observations arising from our audit of the Public Accounts for the year ended March 31, 2001.

FINANCIAL HIGHLIGHTS

13.7 Following is a comparison of revenue and expenditure for the years ended March 31, 2001 and March 31, 2000 from the Consolidated (Summary) Financial Statements.

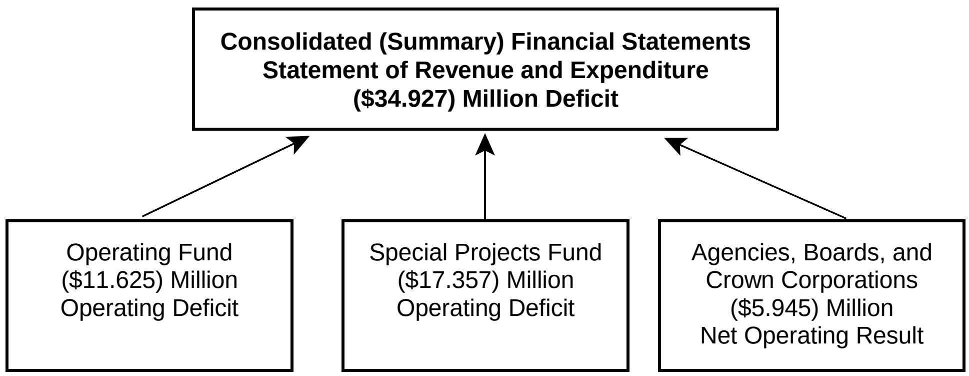
	Year Ended March 31 (Millions)	
	2001	**2000**
Provincial Revenue	$578.7	$565.9
Federal Revenue	383.7	355.6
	962.4	921.5
Expenditures	997.3	909.1
Surplus (Deficit)	$ (34.9)	$ 12.4

DETAILED AUDIT OBSERVATIONS

Financial Statement Presentation

13.8 For the year ended March 31, 2001 the Consolidated (Summary) Financial Statements reported a deficit of $34.9 million compared to a $11.6 million deficit reported by the Operating Fund. For the past three years, the Operating Fund results were significantly different from those contained in the Consolidated (Summary) Financial Statements. As in the past, the main difference pertains to the operating results of the PEI Special Projects Fund, which had an operating deficit of $17.4 million in 2000-01. The remaining difference relates to the operating results of Crown corporations and agencies within the reporting entity which are included in the calculation of the consolidated surplus or deficit.

13.9 The following diagram shows the connection between the Consolidated (Summary) and the Operating Fund Financial Statements and the major components of the $34.9 million deficit for the year as recorded on the Consolidated (Summary) Financial Statements.



13.10 Volume 1 of the Public Accounts contains the audited financial statements of the Operating Fund and the Consolidated (Summary) financial statements. Budget estimates are prepared and included for the Operating Fund but are not provided for the Consolidated (Summary) financial statements. Since the Consolidated (Summary) financial statements report the full nature of the financial affairs and resources for which Government is responsible, these statements should be the main source of financial information for the Province. Preparing the annual budget estimates on a consolidated basis would provide a better understanding of the financial affairs of the entire government and provide a basis for comparing actual performance to budgeted financial results.

Recommendation

13.11 The Public Accounts Volume 1 should contain the Consolidated (Summary) Financial Statements, and corresponding Consolidated budget figures should be included for comparison. The Operating Fund Financial Statements and related Budget Estimates should be included in Volume 2 of the Public Accounts with Crown agencies.

Special Projects Fund

13.12 The Prince Edward Island Special Projects Fund was established under the Financial Administration Act effective March 31, 1999. Pursuant to the Act, the Lieutenant Governor in Council made regulations for the Fund. These Regulations established programs through which money can be disbursed, outlined the purpose of each program, determined eligibility criteria, and the approval and disbursement process.

13.13 The Province's Operating Fund has provided total grants of $48 million to the Special Projects Fund; $1 million in 2000-01 and $23.5 million in each of the previous two years. When expenditures are approved by the Special Projects Fund for specific purposes a transfer is made back to the Operating Fund. When expenditures are made on each project, they are appropriated through the Operating Fund. Following are the balance sheet and income statement of the Special Projects Fund for the past three years.

Special Projects Fund
Balance Sheet

	Year Ended March 31 (Millions)		
	2001	**2000**	**1999**
Current Assets			
Due from Province	$23.6	$40.9	$23.5
Fund Balance	$23.6	$40.9	$23.5

Special Projects Fund
Statement of Revenue, Expenditures and Fund Balance

	Year Ended March 31 (Millions)		
	2001	**2000**	**1999**
Provincial Grant	$ 1.0	$23.5	$23.5
Interest Income	1.9	1.0	-
Total Revenues	2.9	24.5	23.5
Expenditures	**20.2**	**7.1**	**-**
Net Income (Loss)	(17.3)	17.4	23.5
Fund Balance, beginning of year	40.9	23.5	-
Fund Balance, end of year	$23.6	$40.9	$23.5

13.14 Expenditures were made by the following Funds within the Special Projects Fund in the past two years:

	Year Ended March 31 (Millions)	
Fund	**2001**	**2000**
Health Care Stabilization Fund	$ 6.2	$1.6
Development Fund	9.3	3.4
Health Research Fund	.1	-
Sustainable Resource Support Fund	1.2	1.3
Community Development Fund	.9	.8
Education Stabilization Fund	2.5	-
Total	$20.2	$7.1

PEI Master Trust

13.15 Investments of the Teachers' Superannuation, Civil Service Superannuation and MLA Pension Funds are consolidated into the Province of PEI Master Trust. The individual funds receive units in the Master Trust based on net contributions and an allocated share of income and management expenses. The investments are managed by investment managers external to government and an external custodian is responsible for the accounting and record keeping of the Master Trust. An Advisory Committee including representatives of government and plan members makes recommendations to the Provincial Treasurer and Executive Council with regard to investment policies, and management structure for the Master Trust, and has responsibility for monitoring activities and reviewing and evaluating investment performance. An external consultant is engaged to provide regular performance evaluation reports to the Advisory Committee. The Fiscal Management Division of Provincial Treasury is responsible for overseeing the Master Trust.

13.16 The market value of the Master Trust has increased from $656 million at March 31, 2000 to $679 million at March 31, 2001, an increase of $23 million. The following table illustrates the components giving rise to this increase as well as the rate of return on trust assets.

PEI MASTER TRUST
CHANGE IN TRUST ASSETS
($ Millions)

	2001	**2000**
Special contributions by Government	$ 18	$ 18
Interest and dividends	31	25
Market value gains/losses	(11)	50
Pensions and expenses less regular contributions	(15)	(11)
Total increase	$ 23	$ 82
Plan asset rate of return	2.9%	13%

13.17 We perform an annual audit of the Master Trust and report our findings to the Fiscal Management Division of Provincial Treasury. A few problems were reported dealing mainly with accounting issues and allocations among pensions funds. Management has taken action to address the problems raised.

Public Sector Accounting Board (PSAB)

13.18 The Province's financial statements for the 2000-01 fiscal year have for the most part been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. PSAB makes recommendations to improve and harmonize public sector financial reporting and auditing practices. These recommendations have been in place for several years. The Province's implementation of many of these recommendations has resulted in significant changes to the Public Accounts.

13.19 While much has been accomplished, discussions are still underway on current recommendations and issues where new pronouncements are pending. These discussions focus not only on interpreting recommendations but also on assessing the impact on the Province's financial position. Comments follow on issues which still need to be addressed.

Consolidated Budget Estimates

13.20 For many years, we have recommended that Government prepare Consolidated Budget Estimates. Currently the Government's budget focuses on the Operating Fund. This information is not sufficient to understand the finances of the entire government because significant amounts of revenue and expenditures are not included. Since the Province's annual surplus or deficit is the main measure of financial performance, financial statement users should be given sufficient information to compare actual results to budget. The Consolidated (Summary) Financial Statements with corresponding consolidated estimates would be a more complete document for understanding and assessing trends in government financial operations and would demonstrate public accountability for government finances.

13.21 PSAB Standards set out as a basic requirement the inclusion of a consolidated budget with the Public Accounts. In December 2000 the Standing Committee on Public Accounts recommended in its report that the Department of the Provincial Treasury prepare consolidated budget estimates for approval by the Legislative Assembly.

Pension-Related Expenditures

13.22 PSAB standards require that the pension-related expenditures in the statement of revenue and expenditure be accounted for on the basis of the value of the pension benefits attributed to employee service to the accounting date. Pension-related expenditures include the cost of the pension benefits promised during the period as well as the cost of financing the unfunded pension obligation. The cost of pension benefits is determined by an actuary and is normally expressed as a percentage of payroll costs.

13.23 The current accounting of pension expenditures does not fully conform with the PSAB standards because the cost of financing the unfunded pension obligation is not included. The Comptroller has advised our office that the Province’s Public Accounts for March 31, 2002 will reflect pension expenditures in accordance with the PSAB standards.

13.24 Revised PSAB standards relating to retirement benefits were released in September 2001. The underlying principles of these standards were substantially unchanged. However, the standards were broadened to deal with all retirement benefits and disclosure requirements were enhanced. For the most part, the current financial statements properly account for non-pension retirement benefits.

Timely Financial Statements

13.25 We continue to stress the importance of releasing the Public Accounts on a timely basis. Financial statements are an important source of information for decision makers. Their usefulness diminishes as time elapses and increased efforts are needed to have financial statements available on a more timely basis.

Recommendation

13.26 The Public Sector Accounting Board recommendations related to consolidated budget estimates, pension-related expenditures, and timely financial statements should be followed.

Pension Obligation

13.27 A pension obligation arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. During the past three years pension plan amendments and declining investment returns have caused an increase in the pension fund liabilities. The unfunded liability has increased to $216.4 million at March 31, 2001 from $126.4 million at March 31, 1998.

13.28 The Public Accounts have reported the following total pension obligations for the Teachers' Superannuation Fund (TSF), Civil Service Superannuation Fund (CSSF), and MLA Pension Funds (MLA) at March 31, 2001:

	(Millions)				
	TSF	**CSSF**	**MLA (Prior) Plan**	**MLA (New) Plan**	**Total**
Pension fund liabilities	$426.2	$456.1	$13.0	$1.5	$896.8
Pension fund assets	267.0	391.8	20.3	1.3	680.4
Unfunded Pension Liability	$159.2	$ 64.3	$ (7.3)	$ .2	$216.4

13.29 Given the magnitude of the unfunded liabilities and potential fluctuations in assets, we have stressed the need to address the Province's increasing unfunded liability. The Comptroller advised that research will be carried out and an assessment made of the various options relating to the financing of the unfunded liability.

Federal Revenue

13.30 In the past we have identified problems with claims to the federal government, including items recorded in the wrong accounts and inadequate monitoring procedures to ensure that federal revenues are claimed and received on a timely basis. Examples of problems encountered in the 2000-01 year include:

- Confirmation received in the current year from the Federal Government indicated the Province was entitled to a $2.1 million payment under the Memorandum of Agreement respecting Federal Contributions to Youth Justice Services and Programs for the period April 1, 2000 to March 31, 2001. The Program provided for quarterly payments, but no claims were made. A payment for the entire 2000-01 year was received in September 2001. A receivable for the 2000-01 entitlement was not recorded by the Province at March 31, 2001 until requested by our office in July 2001. In addition, the holdback pertaining to the 1999-00 fiscal year entitlement of $183,000 was not received by March 31, 2001.
- In addition to the claims mentioned in the above paragraph, other federal claims receivable for various departments totalling $1.4 million pertaining to the 1999-00 fiscal year remained uncollected at March 31, 2001. As well, the remaining balances outstanding for 2000-01 fiscal year entitlements totalled $3.8 million as of December 31, 2001.

Recommendation

13.31 Steps should be taken to ensure all revenues from the federal government are claimed and received on a timely basis.

Department of Transportation and Public Works - Accounts Receivable

13.32 The Department of Transportation and Public Works (TPW) administers various accounts receivable that are recorded in the Province's accounting records. Balances totalled $5.2 million as at March 31, 2001, of which $1.1 million was outstanding for more than one year.

13.33 The financing cost associated with TPW's accounts receivable is substantial, yet there is no written policy outlining the procedures to be followed in managing the receivables. Monthly statements are not sent to customers having amounts past due, and TPW does not charge interest on overdue accounts. Also, we noted cases where invoices were not issued on a timely basis.

13.34 Highway easement fees receivable as at March 31, 2001 totalled $1.2 million, of which approximately $800,000 has been outstanding for more than one year. Of the $1.2 million, $345,000 was collected subsequent to year end.

13.35 The Department has not established an allowance for doubtful accounts even though it has accounts receivable balances of $5.2 million at March 31, 2001. One receivable for $153,000 from a paving contractor has been owing since March 31, 2000. Most of this is for liquid asphalt used during the 1999 paving season. TPW staff advised that this company has gone into receivership. In March 2001 Provincial Treasury wrote off $289,000 in revenue tax owed by this same company. However, TPW has not set up any bad debt allowance related to this particular account or any other of its accounts receivable.

13.36 During 2000-2001, the Department wrote off two accounts totalling $12,316. Neither of these write-offs were properly approved by Order-in-Council as required by the Financial Administration Act.

Recommendation

13.37 Transportation and Public Works should implement procedures for the management of accounts receivable including:

- **Timely invoicing;**
- **Monthly statements to customers with past due amounts;**
- **Interest charges on overdue balances;**
- **Timely collection of amounts owing and adequate follow up on past due balances;**
- **An allowance for bad debts where the collection of accounts receivable is doubtful; and**
- **Where accounts are deemed uncollectible, write-offs should be properly approved in accordance with the Financial Administration Act.**

13.38 Our examination of the Department of Transportation and Public Work's accounts receivable led to a review of payments related to a road construction project. This project involved a complex chain of events and transactions. Following are the payments made under the contract:

Payments to primary contractor	$489,000
Payments to sub-contractor, pursuant to assignment made by primary contractor	80,000
Payment to Supreme Court of PEI to discharge lien filed by sub-contractor for unpaid work on project	89,000
Total payments	658,000
Value of work completed	593,000
Excess of payments over value of work completed	$ 65,000

13.39 On August 17, 1999, the Department entered into a tendered contract for the project. Three payments totalling $489,000 were made to the contractor and through an assignment from the contractor to the sub-contractor, a direct payment of $80,000 was made to the sub-contractor. The Department did not take the necessary steps to legally assign this payment as part of the holdback on the project. Within a few days of this payment, the same sub-contractor filed a mechanics' lien against the Department for monies owed them by the primary contractor. The Mechanics' Lien Act requires the owner of a project over $15,000 to retain 15 percent of the value of the work completed as a holdback. The required holdback for this project was $89,000 or 15 percent of 593,000. To satisfy the Mechanics' Lien Act a payment of $89,000 was made into Court; however, the Department's records showed that the balance owing for this project was only $24,000. As a result, the total payments exceeded the value of work completed by $65,000.

13.40 This is the same primary contractor who owes TPW $153,000 for liquid asphalt and who recently had $289,000 written off in revenue tax.

Recommendation

13.41 The Department of Transportation and Public Works should ensure that contract payments do not exceed the value of work completed.

Cancellation or Discharge of Debt

13.42 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, debts or monies due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount cancelled or discharged under Section 26 was $1,050,248 and the amounts written off under Section 26.1 were $1,425,568 in the 2000-01 fiscal year. These amounts, related to the Revenue Tax Act $1,008,287; the Welfare Assistance Act $635,354; the Lending Agency Act $723,781; and the Real Property Tax Act $108,394.

Surplus (Deficit) of Crown Agencies and Corporations

13.43 Section 16 of the Audit Act requires the Auditor General to include information in the Annual Report on deficits of agencies not covered by appropriations in the year in which they have been incurred, and any surpluses not paid into the Operating Fund in the year in which they are earned. For information purposes we have also included the cumulative surplus or deficit for each entity.

AGENCY	Annual Surplus(Deficit) For the Year	Cumulative Surplus (Deficit)
Agricultural Insurance Corporation	$ (79,788)	$ 7,000,228
Agricultural Research Investment Fund Inc.	5,721	1,160,781
Aquaculture and Fisheries Research Initiative Inc.	(41,365)	744,537
Business Development Inc.	152,442	1,644,726
Charlottetown Area Development Corporation	(797,917)	4,687,832
Eastern School District	(961,001)	(949,182)
Energy Corporation	59,033	102,018
French Language School Board	816	61,395
Human Rights Commission	12,143	13,273
Innovative Solutions Agency (PEI) Inc.	(77,880)	285,787
Island Investment Development Inc.	191,871	(67,697)
Island Waste Management Corporation	(715,909)	(477,580)
Lending Agency	300,807	725,665
Museum and Heritage Foundation	150,346	647,133
Self-Insurance Fund	211,646	7,930,977
Special Projects Fund	(17,356,654)	23,570,111
Summerside Regional Development Corporation Ltd.	(426,734)	2,667,013
Tourism PEI	(704,179)	205,722
Western School Board	(488,709)	(461,117)
Workers Compensation Board	(3,317,348)	(31,088,722)

MANAGEMENT RESPONSE

13.44 These issues have been discussed with management and a written response will be provided.

14. APPROPRIATIONS

INTRODUCTION

14.1 Our audit of Appropriations for the year ended March 31, 2001 included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature and special warrants approved by Executive Council on the recommendation of Treasury Board.

14.2 The Appropriations Act provides the spending authority for government and is approved by the Legislative Assembly annually. Appropriations for 2000-2001 were approved in the Appropriation Act 2000. If additional funds are required during the year, special warrants are issued by the Lieutenant Governor in Council.

14.3 In **SCHEDULE A** attached to this report, we provide a comparison of appropriations to actual expenditures in accordance with the classifications in the Appropriation Act 2000.

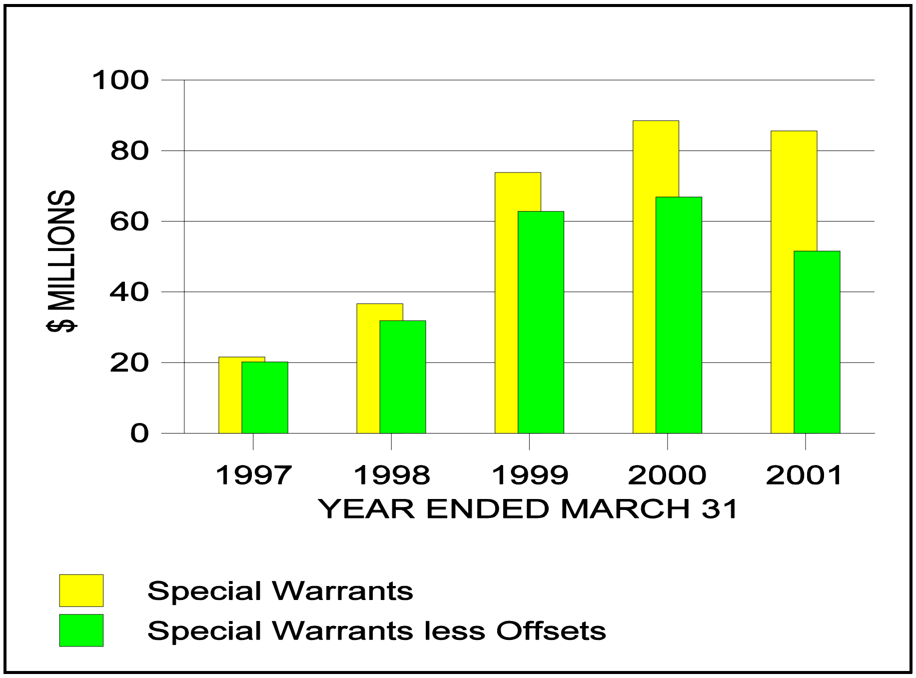
SPECIAL WARRANTS

14.4 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE B** attached to this report.

14.5 For the 2000-2001 fiscal year, special warrants totalled $85.6 million compared to $88.5 million in 1999-2000. Of the special warrants issued for 2000-2001, $33.9 million was offset by revenue and $88,700 was offset by funds sequestered from appropriations. The result was a net increase in provincial appropriations of $51.6 million.

14.6 **Exhibit 14.1** indicates the gross special warrants and special warrants net of any offsets for the last five years.

EXHIBIT 14.1
SPECIAL WARRANTS



Intent of Special Warrants

14.7 Except for special warrants, payments are not to be made out of the Operating Fund without the authority of the Legislative Assembly. The Budget Estimates are prepared annually for the Legislative Assembly to serve as detailed support for the appropriations approved in the Appropriation Act. The Financial Administration Act provides for special warrants to be used where the Legislative Assembly is not in session, a payment is required for the public good and there is no available appropriation. It is a requirement that special warrants be approved in the next session of the Legislative Assembly by way of a Supplementary Appropriation Act.

14.8 In 1999, we recommended that Treasury Board develop explicit criteria to determine when special warrants are appropriate under the Financial Administration Act. Provincial Treasury accepted our suggestion and agreed to review the Financial Administration Act to determine if criteria need to be developed to provide additional guidelines for the use of special warrants. In the December 1, 2000 interim report of the Standing Committee on Public Accounts it was noted that the Committee specifically discussed and reiterated this recommendation. No change has been made to date.

MANAGEMENT RESPONSE

14.9 Management advised that they are still considering this issue.

UPDATE ON PREVIOUS RECOMMENDATIONS

15. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

15.1 Each special audit we perform results in an audit report in which we make recommendations designed to improve management and administration of government operations and program delivery. It is management's right to select the best course of action to address the problems identified. We are primarily concerned that all recommendations are being addressed by management.

15.2 In its November 2001 report, the Public Accounts Committee endorsed the observations and recommendations made in the 2001 Annual Report of the Auditor General. Further, the Committee requested that the status of implementation of the recommendations be reported in the 2002 Annual Report of the Auditor General to the Legislative Assembly. Reporting on the follow up of outstanding recommendations is an important step in the accountability process.

15.3 As in prior years, we requested information from departments and agencies on the status of action taken to address the outstanding audit recommendations. Normally this information is limited to correspondence from the Deputy Minister or Chief Executive Officer of the organization and we do not always further verify or check the information received. However, we do review the responses for reasonableness. In most cases it is more cost-effective to do detailed verification during the next scheduled audit.

15.4 Following is summary information provided to us on the status of recommendations from the special audits and examinations reported in the 2001 Annual Report of the Auditor General.

LENDING ACTIVITIES AND LOAN GUARANTEES

15.5 Following are the recommendations from the audit as presented in the Auditor General's 2001 Annual Report. The status of implementation of the recommendations is provided based on information received from management of both the PEI Lending Agency and PEI Business Development Inc.

Auditor General's Recommendation	Status/Management Response
The Board of Directors of PEI Business Development Inc. should ensure its plan to meet on a regular basis is put into practice and that it fulfils its responsibilities as established in the PEI Business Development Inc. Act.	We provide additional comments on this issue in a separate section of this report on PEI Business Development Inc. Grants and Contributions.
Policies dealing with authorization levels for loans, guarantees, and development assistance should be approved by the Board of Directors of PEI Business Development Inc.	We were advised that this recommendation was implemented.
Consideration should be given to transferring loans made by the Business Development Inc. to the Lending Agency for monitoring, and collection.	The issue has been considered and an approach has been identified which will maintain this activity within the Ministry of Development and Technology with a separation of the "sales" and credit activities.
The Lending Agency should prepare and document a strategic and operational plan.	The present Government has recently announced its intent to develop a provincial strategy. Once this is complete the Agency will review the need for a corresponding lending strategy or determine if the Province's objectives can be served by tailoring existing lending policies.

Auditor General's Recommendation	Status/Management Response
The signing authority policy dealing with the approval levels for the Board of Directors and the Lieutenant Governor in Council should be followed. The size and status of loans to affiliated clients should be considered in assessing new loan applications and, if there is any doubt as to whether companies are affiliated, the loan approval should be referred to the higher level.	Management advised that Agency staff are ordinarily quite conscientious of their responsibility to follow loan approval levels. Management stated that the definition of "affiliate" was vague and has received a clearer definition. We were advised that in any case of doubt in the future, loan approvals will be referred to the higher authority level.
All monitoring agreed to in the letter of offer should be carried out. When it becomes evident that a loan outstanding is at risk, a review of the account should be conducted and action taken to mitigate the loss to the Agency.	Current improvements to the Agency's computerized information system will assist in the receipt of necessary monitoring information. When potential problems are identified client discussions commence. When warranted, if potential losses are foreseen, collection processes are implemented.
Changes in the terms and conditions of the loans should be approved at the same level of authority as required for the original loan approval.	Policy of the Agency dictates that authority to change or alter the terms and conditions of any loan agreement is in accordance with the loan authority limits, determined by the outstanding loan balance. Management has since received direction regarding the ability of staff to make decisions that are of a maintenance nature to loans approved at higher authority levels.
For all loans, terms and conditions in the letter of offer should be followed.	Gaining compliance of all clients in all situations can be difficult. A reasonable penalty or associated fee may need to be implemented to invoke compliance.

Auditor General's Recommendation	Status/Management Response
For monitoring and reporting purposes, non-current loans at the PEI Lending Agency should be included in the arrears balance in the Comparative Arrears Report.	The combined total figure for current and non current loans has been added to the report.
The loan accounting system should be revised to allow identification of working capital loans in arrears.	A computer programming upgrade was initiated in February 2002.
The information maintained in the Central Default Registry should be current and complete, including information from all applicable departments and agencies of government.	Letters have once again been forwarded to PEI Business Development Inc. and Provincial Treasury indicating the need for them to provide this information to the Agency in order to achieve compliance. Business Development Inc. has recently implemented a system to forward appropriate information to the registry. Notification has also been sent to all Deputy Ministers requesting the departments, corporations, and agencies, for which they are responsible be notified of the requirement to report this information.
Guidelines should be established for economic development initiatives to assist decision makers in determining the maximum exposure and risk government is prepared to take with any one client.	Guidelines have not been established. Every project is different and unique and each project/client continues to be managed based on its unique situation.
Loan guarantees over $1 million, provided by PEI Business Development Inc., should be approved by Executive Council in accordance with the signing authority policy.	We were advised that this recommendation is now being followed.

Auditor General's Recommendation	Status/Management Response
Business Development Inc. should establish a policy regarding the application of administration fees for loan guarantees.	Business Development Inc. will implement a policy in this regard as part of its lending plan which is being developed for presentation to Treasury Board by April 2002.
Where Treasury Board specifically requires administration fees on loan guarantees they should be collected.	This recommendation will be followed and efforts are underway to collect outstanding fees.
For Entrepreneur Loan guarantees, Business Development Inc. should not pay the administration fee to the financial institution until the required documentation has been received.	Management advised that this recommendation is now being followed.
The criteria for the Entrepreneur Loan Program should be followed.	Management reported that this recommendation has been implemented.
Summary information on outstanding loans and loan guarantees at Business Development Inc. should be provided to Executive Council on a periodic basis.	This information is provided to Treasury Board annually. As well the Minister as a member of the Board of Directors receives a copy of the most recent interim financial statements at each Board meeting. PEI Business Development Inc. is currently developing policy/procedures regarding lending practices and reporting.
Goals and results achieved should be more clearly reported for lending activities.	The Annual Report for the period ending March 31, 2001 contains the information, outlining policy changes, goals, and operating results of the Agency.

GOLF LINKS PRINCE EDWARD ISLAND INC.

15.6 Following are the recommendations resulting from our audit of Golf Links PEI Inc. as presented in the Auditor General's 2001 Annual Report. Information received from management on the status of implementation of the recommendations is also provided.

Auditor General's Recommendation	Status/Management Response
The Board of Directors of Golf Links PEI Inc. should formally adopt policies for the operation of the Corporation including any applicable Treasury Board policies.	The Board of Directors approved the adoption of policies and procedures previously in effect prior to the incorporation of Golf Links PEI Inc. These include standard government policies related to the Purchasing Act, Financial Administration Act, and the Civil Service Act, as well as policies respecting tee-off times, promotional rounds, and any other policies specific to golf.
To more accurately reflect the net profit or loss of each course, all revenues and expenses should be allocated to specific courses.	All revenues and expenses directly associated with a specific course are allocated to that course and general administration costs will be allocated 25 percent to each course.
Revenues and expenses by golf course should be included in the Annual Report to the Legislature.	Management is still reviewing this issue from the viewpoint of whether it compromises the business position of the Corporation.

Auditor General’s Recommendation	Status/Management Response
Golf Links should prepare operational and strategic plans which at a minimum require: • identification of the entity’s strategic and operational goals and objectives; • allocation and linkage of these goals and objectives to specific programs; • identification of results to be achieved by program and the measures to be used to assess their achievement; • description of procedures to monitor achievement of intended results; and • reporting of the results achieved with explanations and planned action for major variances from goals and objectives. The strategic and operational plans should be approved by the Golf Links Board of Directors and the Minister of Tourism.	The new Manager of Golf has commenced work on these plans and is committed to having them completed prior to the start of the 2002 season.
Control procedures for purchases should be established, clearly documented, and communicated to indicate the responsibilities and procedures for pro shop supervisors, course superintendents, accounting staff and signing officers. These procedures should be approved by senior management.	Control procedures for purchases will be documented and communicated in writing to all golf shop supervisors, golf superintendents, accounting staff, and signing officers prior to the start of the 2002 season.
Billings for Mill River Pro Shop operating costs should be itemized and the details documented.	The information has been requested and no further payments will be issued until the required documentation is received.

Auditor General's Recommendation	Status/Management Response
Management should ensure the documents supporting merchandise purchases are retained.	Management advised that this recommendation has been implemented.
Pro Shop supervisors should ensure that perpetual inventory records are retained and reconciled to actual counts at year end.	Management informed us that this recommendation has been implemented.
To help ensure acquisitions are made at the most economical cost, equipment purchases of this magnitude should be tendered in accordance with the Public Purchasing Act.	Management agrees with this recommendation.
Equipment purchases should be approved by the Board of Directors and Treasury Board in accordance with the signing authority approval levels established in Board Policy.	Management agrees with this recommendation.
Treasury Board approval should be obtained, as required in the Golf Links signing authority policy, before purchase contracts are entered into.	Management agrees with this recommendation.
Adequate supporting documentation, explaining the amounts charged, should be obtained before invoices are paid.	Management agrees with this recommendation.

Auditor General's Recommendation	Status/Management Response
All promotional rounds should be approved by the General Manager. A list of all participants in promotional rounds should be submitted to the President of Golf Links with the reason for granting that round. The cost/benefit of granting promotional rounds should be assessed and submitted to the Board of Directors.	All promotional rounds are approved by designated staff and a list will be provided to the Board annually.
All rounds played at the golf courses should be recorded on the daily booking sheet. This sheet should be reconciled to the computer system on a daily basis to ensure all rounds are recorded and accounted for.	Management reported that these procedures have been implemented.
Concession agreements should be finalized for Brudenell, Dundarave and Mill River golf courses as soon as possible.	Draft agreements have been submitted to the Concessionaire and it is anticipated they will be signed before the 2002 season. Golf Links is prepared to seek competitive bids for these services in 2002-2003 if written agreements are not forthcoming.
Golf Links Prince Edward Island Inc. should ensure that all of the deficiencies identified by the golf course consultant have been corrected by the Developer.	Golf Links now owns the Course.
A formal agreement should be signed with the Golf Academy to ensure all maintenance costs incurred by Golf Links are recovered.	The Agreement was signed on March 30, 2001.

CONSTRUCTION OF THE PROVINCIAL ADDICTIONS CENTRE

15.7 Recommendations from the audit are provided below as presented in the Auditor General's 2001 Annual Report. The status of implementation of these recommendations is also provided based on information received from management of the Department of Transportation and Public Works.

Auditor General's Recommendation	Status/Management Response
A needs analysis explaining the reason for space requirements should be prepared and documented for all capital projects.	On recent projects the Department has prepared a space summary that identifies the rationale and requirement for various spaces included in capital building projects.
The Department of Transportation and Public Works should ensure that change order requests are resolved on a timely basis.	The Department attempts to resolve change order requests on a timely basis. However, some requests require evaluation, discussion, and negotiation that requires a significant length of time.

GOVERNMENT GRANTS - DEPARTMENT OF DEVELOPMENT AND TECHNOLOGY

15.8 Following we present the recommendations resulting from the audit of Government Grants-Department of Development and Technology. These recommendations were reported in the Auditor General's 2001 Annual Report. The status of the implementation of these recommendations as provided by management is also presented.

Auditor General's Recommendation	Status/Management Response
Expected results should be documented for the various grant programs and programs should be evaluated on a regular basis to determine if expected results are being achieved.	The Federal Provincial program has ended. With respect to community programs, reviews are conducted to determine the extent of funding leveraged and the level of community satisfaction.
Program staff should document the assessment of projects and confirm eligibility.	Management reported that this recommendation is being followed.
Controls should be improved to ensure all grants paid are fully documented and supported with billings from suppliers, certification of expenditures by clients, and the verification by Department staff of the final cost claim summary.	Management advised that this recommendation has been implemented.
Each grant program should have expected results defined in terms that can be quantified and assessed.	They limit their measurement of results to the measurement of funds leveraged from the proponent and third parties.
Grant programs should be evaluated on a regular basis to determine if expected results are achieved.	We are advised that this is being done on an informal basis.
Grants should not be paid in full until projects are completed and costs are verified.	Management advised that this recommendation is being followed except under certain unique circumstances.

Auditor General's Recommendation	Status/Management Response
All projects should have documented proposals and letters of offer on file.	Management reported that this recommendation has been implemented.
Offers should clearly identify the terms and conditions of the grant and require formal acceptance by the client.	Management reported that this recommendation has been implemented.
Agreements on behalf of government should be executed in accordance with Treasury Board Policy.	The Department agrees with this recommendation.
Grant programs should be evaluated on a regular basis to determine if expected results are achieved.	Management advised that this is being done on an informal basis.
Grants should be based on documented funding agreements or offers that clearly outline the responsibilities of each party.	Management stated that this recommendation has been implemented.
Clients should be required to formally agree to funding agreements and offers.	Management advised that this recommendation has been implemented.
Payments should be properly authorized.	Management advised that this recommendation has been implemented.

GOVERNMENT GRANTS -
DEPARTMENT OF AGRICULTURE AND FORESTRY

15.9 Recommendations from the audit as reported in the Auditor General's 2001 Annual Report follow. The status of these recommendations is also provided based on information received from the management of the Department of Agriculture and Forestry.

Auditor General's Recommendation	Status/Management Response
The results to be achieved by the Agriculture and Environmental Resource Conservation Program and the measures to be used to assess their achievement should be developed and documented by the Department. Priorities should be identified so that funding is allocated to projects having the greatest benefit.	Both of these recommendations have been recognized and identified by staff involved in the delivery of the Agriculture and Environmental Resource Conservation Program (AERC) as well as the Evaluation Team led by the Strategic Planning and Measurement Division of the Department which conducted and completed a formal program evaluation. The existing AERC program concludes on March 31, 2002. A successor program will incorporate an appropriate results and measures process.
The Claim for Reimbursement should be modified to confirm that the project officer has visited the site to verify that the work is complete.	Project advisors do visit the site when the job has been completed and before the Claim Form is signed off. The Claim for Reimbursement form for a successor AERC program will include this verification.
In accordance with the terms of the program, required documentation should be on file to support payments	Management reported that all payments are now supported with the required documentation.
The program should be evaluated by management on a regular basis to determine if expected results are being achieved.	An evaluation of the Agriculture Industry Transition program has been completed by the Strategic Planning and Measurement Division of the Department.

Auditor General's Recommendation	Status/Management Response
Quantifiable targets should be established for the Forest Renewal Program and linked to the goal of sustainable harvesting.	The targets for the Forest Renewal Program were established as a result of a 1990 comprehensive forest inventory and modeling exercise. The Department is in the middle of a comprehensive land use inventory project which will lead to a new State of the Forest Report. This public report will provide information on the health and state of PEI's forest and outline management and treatment levels required to manage the forests of PEI.
Agreements on behalf of government should be executed in accordance with Treasury Board policy.	The Department revised its Forest Renewal Enrollment Contract. The revision will ensure that the Minister authorizes all enrollment contracts.
The Forest Renewal program should be evaluated on a regular basis.	The Forest Renewal Program is scheduled for a formal review in the 2002-2003 fiscal year. The program will be evaluated every four years.
All claims should be properly supported and documented.	Management advised that this recommendation has been implemented.
The expected results to be achieved by offering the Primary Resource Development Program should be clearly defined and the program should be evaluated periodically.	The Department will undertake to ensure that if a new agreement is negotiated, the new work plans would include expected results and measures to be used to assess achievement.

PUBLIC ACCOUNTS COMMITTEE

16. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

16.1 The Standing Committee on Public Accounts is a Committee of the Legislative Assembly. It is an important link in the accountability process; it provides a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable for the use of public funds and the stewardship of public assets.

16.2 The Committee consists of four members and is chaired by the Leader of the Official Opposition. Its primary function is the review of the Auditor General's Annual Report. The Committee holds public meetings and requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues.

PROCEEDINGS AND RESULTS

16.3 The Committee held a number of meetings to review the observations and issues raised in my 2001 Annual Report. I appeared before the Committee on five occasions and assisted in their deliberations by providing further information, explanation and clarification where requested.

16.4 In November 2001, the Committee prepared a report to the Legislature on its proceedings. In that report the Committee endorsed all the recommendations and observations made in the 2001 Report of the Auditor General. In addition, the Committee requested the implementation of these recommendations be followed up and their status be reported in the Auditor General's next report to the Legislative Assembly.

16.5 Through its deliberations the Committee has an important role in contributing to improved accountability and effectiveness in government operations. I look forward to continuing to work with the Committee in fulfilling its mandate.

OFFICE OF THE AUDITOR GENERAL

17. OFFICE OF THE AUDITOR GENERAL

MISSION AND MANDATE

17.1 The mission of the Office of the Auditor General is:

- to conduct independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly.
- to promote best practices in government operations.

17.2 The mandate of the Office is derived from the Audit Act. As a servant of the Legislative Assembly, the Auditor General is independent of government. Under the Act, authority is given to carry out financial statement audits of the Public Accounts as well as any agency of government or Crown controlled or owned corporation.

17.3 The Act also gives the Auditor General a broad mandate to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purposes and is doing so economically and efficiently in compliance with the applicable statutory requirements.

GUIDING PRINCIPLES

17.4 The following principles are used to guide the Office in carrying out its mission:

- *Serving the Public Interest* - We focus on significant issues to achieve a positive and measurable impact for the benefit of the public. In particular, we promote value for money in the use of funds raised from taxpayers.

- *Commitment to Excellence* - We strive to meet the highest standards of professionalism and integrity. While maintaining our independence, we seek to develop a relationship of respect and trust with those we audit. We are committed to delivering quality reports.

- *Being Cost-Conscious* - We seek to make the best possible use of our resources and to minimize costs without compromising quality or service.

- *Promoting Innovation* - We are committed to learning and growth. We promote the use of innovative thinking and state-of-the-art technology to continuously improve the quality of what we do.

RESPONSIBILITIES AND FUNCTIONS

17.5 The Audit Act sets out the responsibilities of the Auditor General. The Auditor General is required to report annually on the results of the audits and examinations conducted by the Office. The work of the Office can be categorized into two types of assignments - financial audits, and special audits and examinations.

17.6 The primary responsibility of the Auditor General is the audit of the Public Accounts of the Province. The Auditor General is also named in legislation as the financial auditor for a number of Crown agencies.

17.7 The mandate also allows the Auditor General to conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently and is complying with the applicable statutory provisions. Special examinations may include work on compliance with applicable authorities on a government-wide basis. In addition, the Act allows for special assignments or investigations at the request of the Lieutenant Governor in Council.

17.8 In conducting its work, the Office performs an important service to the Legislative Assembly. In some cases where government reports information about its performance we comment on its completeness and accuracy and thus provide credibility and add value to that information. In other circumstances we audit government programs directly and report our findings to the Legislative Assembly and the public. The reports resulting from these assessments include recommendations and advice which can assist government in identifying opportunities for improvement in the management and control of public funds.

OPERATING PHILOSOPHY

Independence

17.9 The Auditor General works for the Legislative Assembly, not for government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The Audit Act establishes the legal framework for an independent audit office. The key components in building that independence include:

- the existence of a Legislative Audit Committee which approves the Office's budget and recommends it to Executive Council;
- the authority to carry out the audits and examinations which the Auditor General deems necessary;
- the right of access to records and information necessary to perform audit functions;
- the power to request and receive any information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

17.10 In addition to these important components, the independence of the Office is supported by an office code of conduct which includes, among other things, policy and guidance on integrity, impartiality, and potential conflict of interest situations.

Audit Planning

17.11 Each year an audit work plan is developed consistent with the audit priorities established by the Office. This plan includes a number of financial statement audits as well as special audits and examinations.

17.12 Special audits and examinations of government departments and Crown agencies are carried out on a cyclical basis. These audits can vary in scope from the entire organization to a particular division or program. Sometimes an audit will be carried out on a particular function on a government-wide basis.

17.13 Various factors are considered in establishing priorities for special audits and examinations. These include; materiality of revenues/expenditures, results of previous audits, the date of the last audit, and the impact on the public. Other factors considered in planning each audit include; our audit mandate, expected resources required to complete the audit, the quality of the financial and management controls in place for the entity, complexity of the operations, and possible matters of significance that may arise from the audit.

17.14 Occasionally the Office is requested by government to carry out an examination or review for a particular purpose. Efforts are made to accommodate such requests where resources permit.

Professional Standards

17.15 Generally accepted accounting principles for government are established through the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). These recommendations are directed at the public sector and deal with numerous accounting issues. We rely on generally accepted accounting principles for the public sector in conducting our audits as well as other guidance provided by the CICA.

17.16 Our audits are conducted in accordance with generally accepted auditing standards. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

17.17 The Office is subject to a periodic practice inspection carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the

Office meets the standards required of the profession. The Office was subject to a practice inspection in May 2001 and no problems were found.

PERSONNEL, ADMINISTRATION AND AFFILIATIONS

Organization

17.18 This year the staff of the Office of the Auditor General included three audit directors, ten auditors and two administrative staff. During the past year a senior auditor accepted employment in a government department, and due to budgetary restraint the position remains vacant. In addition there are three other vacant positions. With our limited staff we strive to provide audit coverage of significant areas of government on a cyclical basis.

17.19 For the year ended March 31, 2002 budgeted expenditures for the Office amounted to $1,229,400. Of this amount, nearly 90 percent related to salary costs.

17.20 Under the Audit Act, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for the administration of the Office of the Auditor General. The Committee consists of the Speaker of the Legislative Assembly, who is Chairperson; the Leader of the Opposition; and the Provincial Treasurer. On an annual basis, the Committee reviews the budget estimates of the Office.

Professional Affiliations

17.21 As an Office we strive to keep current in all aspects of legislative and other audit practices, as well as new developments within the profession. The Office maintains a close association with a number of professional organizations and experience and methodology is shared with a view to contributing to the further development of legislative audit practices. Some of the key affiliations include the following:

- The Canadian Council of Legislative Auditors (CCOLA) - The meetings of the Council bring together legislative auditors from the federal government and the provinces and provides an opportunity for information exchange, discussion, and development and enhancement of legislative audit practices. Members of the Office serve on various CCOLA committees.

- The CCAF - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

- The Public Sector Accounting Board - The Office provides input and cooperates with the Board in its efforts to improve and harmonize public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting issues.

- The Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Prince Edward Island - The Office maintains an important professional relationship with these organizations and provides input and receives information on developments in the profession through membership on various committees.

OBJECTIVES AND ACCOMPLISHMENTS

17.22 The Office has established two broad goals, one of which is:

To promote improved accountability for, and management of, public funds.

To support this goal, we have developed a number of supporting objectives. The following paragraphs provide information on each of these objectives and our accomplishments during the year.

(I) To prepare an Annual Report for the Legislative Assembly as required under the Audit Act, on the results of the audits that have been carried out.

17.23 The Annual Report is a summary of the most significant issues and recommendations resulting from our work. It is our expectation that the Annual Report presented each year will act as a vehicle for positive change in the management and performance of the public sector. The deliberations and discussions on the Report that occur within the Legislative Assembly and by the Standing Committee on Public Accounts provides the impetus to bring about the improvements recommended in the Report.

17.24 Our 2001 Annual Report was tabled in the Legislative Assembly on April 11, 2001. I appeared before the Public Accounts Committee on a number of occasions and provided support to their deliberations through participation in the discussions and provision of further explanation and information as requested.

(II) To express opinions on the financial statements of the Public Accounts of the Province and other Crown agencies subject to audit.

17.25 We issued an unqualified opinion on the Public Accounts again this year. We continue to work closely with the Office of the Comptroller in improving the financial statement presentation and disclosure. In addition to the Public Accounts, we conduct a number of financial statement audits of Crown Corporations, Pension and Trust Funds, and other Agencies.

17.26 Through this process we provide assurance to the taxpayers through the Legislative Assembly, on the fairness of information reported by government.

(III) To perform selective special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are in compliance with applicable statutory provisions.

17.27 The amount of special audit and examination work that we are able to carry out is a function of the amount of staff resources we have available after having carried out the financial statement audits that we are required by legislation to complete. Information is provided elsewhere in this report on the special audits and examinations completed during the year.

17.28 Our special audits and examinations provide information and assurance on the management of public resources in a number of selected areas. We provide advice and make recommendations to improve management controls and practices where necessary.

(IV) To perform other investigations as may be required from time to time.

17.29 Occasionally we are asked to investigate potential weaknesses in control or to follow up on specific observations from our reports. It has also been our practice to follow up on outstanding recommendations and provide information in our Annual Report on the status of implementation of the recommendations arising from our audits.

17.30 Providing follow-up information on the status of our recommendations is an important part of the legislative audit function and the accountability of government to the Legislative Assembly. It provides important feedback to the Public Accounts Committee and assists in its role of holding government accountable.

17.31 Our second broad goal is:

> ***To continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.***

The supporting objectives and related accomplishments follow.

(I) To maintain technical competence in an evolving accounting and auditing environment.

(II) To remain aware of and provide input to the development of public sector accounting standards.

(III) To build leadership within the Office by providing professional development and training opportunities for staff.

17.32 Our Office maintains an affiliation with the Canadian Institute of Chartered Accountants which helps us to keep abreast of emerging accounting and auditing issues. Standards are promulgated by the Public Sector Accounting Board. We regularly participate in this process by providing comments during the discussion stages of the development of government accounting standards. In addition we maintain professional affiliations with the Canadian Council of Legislative Auditors and the CCAF. This participation allows us to share knowledge and experience and keep abreast of newly developed methodology.

17.33 Audit staff within the Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional conferences, seminars and meetings.

SCHEDULES

OPERATING FUND APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 2000/2001	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 2000/2001	EXPENDITURES 1999/2000
AGRICULTURE AND FORESTRY	$ 22,849,400	$ -	$ 22,849,400	$29,133,900	$ -	$ 51,983,300	$ 51,513,180	$ 24,992,233
PEI GRAIN ELEVATORS CORPORATION	165,000 -	165,000	151,300	-	316,300	316,228		678,300
OFFICE OF THE ATTORNEY GENERAL	27,529,900	-	27,529,900	264,500	-	27,794,400	27,774,601	25,713,584
AUDITOR GENERAL	1,203,600	-	1,203,600	-	-	1,203,600	1,069,700	1,109,521
COMMUNITY AND CULTURAL AFFAIRS	12,020,600	97,100	12,117,700	2,146,800	-	14,264,500	14,249,053	12,062,097
DEVELOPMENT AND TECHNOLOGY	17,540,100	(6,886,600)	10,653,500	3,713,500	-	14,367,000	13,387,294	14,990,447
TECHNOLOGY ASSET MANAGEMENT	1,258,500	-	1,258,500	-	-	1,258,500	495,139	-
PEI BUSINESS DEVELOPMENT INC.	26,330,300	2,848,700	29,179,000	15,204,800	-	44,383,800	44,383,800	28,648,423
EMPLOYMENT DEVELOPMENT AGENCY	3,722,100	-	3,722,100	2,368,700	-	6,090,800	5,495,523	4,832,334
PEI ENERGY CORPORATION	312,400	-	312,400	-	-	312,400	299,500	187,659
EDUCATION	183,358,200	(97,100)	183,261,100	6,532,900	1,332,200	191,126,200	191,126,149	178,177,720
ISLAND REGULATORY AND APPEALS COMMISSION	1,065,100	-	1,065,100	-	-	1,065,100	1,065,100	1,041,200
EXECUTIVE COUNCIL	2,359,000	-	2,359,000	-	-	2,359,000	2,243,498	2,127,207
FISHERIES, AQUACULTURE AND ENVIRONMENT	7,658,600	-	7,658,600	513,500	-	8,172,100	8,070,898	7,695,333
HEALTH AND SOCIAL SERVICES	312,915,200	-	312,915,200	10,223,200	5,267,900	328,406,300	328,404,754	310,552,633
EAST PRINCE HEALTH FACILITY	9,000,000	-	9,000,000	-	-	9,000,000	5,894,881	-
LEGISLATIVE ASSEMBLY	3,106,300	-	3,106,300	751,000	-	3,857,300	3,652,466	2,745,330

OPERATING FUND
APPROPRIATIONS

ORDINARY	ORIGINAL APPROPRIATION ACT 2000/2001	GOVERNMENT REORGANIZATION	RECAST ORIGINAL APPROPRIATION	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 2000/2001	EXPENDITURES 1999/2000
PROVINCIAL TREASURY	$ 13,130,300	$4,037,900	$ 17,168,200	$ 149,500	$ -	$ 17,317,700	$ 16,890,713	$ 15,597,386
GENERAL GOVERNMENT	12,593,500	-	12,593,500	1,300,100	(6,600,100)	7,293,500	6,748,703	28,876,016
PEI LENDING AGENCY	794,300	-	794,300	-	-	794,300	786,400	731,900
COUNCIL OF MARITIME PREMIERS	183,700	-	183,700	-	-	183,700	183,700	175,792
INTERMINISTERIAL WOMEN'S SECRETARIAT	343,600	-	343,600	-	-	343,600	317,387	322,699
PEI PUBLIC SERVICE COMMISSION	5,382,800	-	5,382,800	-	-	5,382,800	5,320,392	6,670,248
EMPLOYEE BENEFITS	10,402,200	-	10,402,200	5,493,100	-	15,895,300	15,895,278	10,473,029
TOURISM	161,800	-	161,800	-	-	161,800	139,086	190,360
TOURISM PEI	9,712,900	-	9,712,900	401,500	-	10,114,400	10,109,747	9,436,384
TRANSPORTATION AND PUBLIC WORKS	66,298,800	-	66,298,800	6,917,300	-	73,216,100	70,239,213	65,610,594
INTEREST CHARGES ON DEBT	108,470,000	-	108,470,000	-	-	108,470,000	107,743,234	102,695,020
TOTAL ORDINARY	$859,868,200	-	$859,868,200	$85,265,600	-	$945,133,800	$933,815,617	$856,333,449
CAPITAL								
TRANSPORTATION AND PUBLIC WORKS	29,771,100	-	29,771,100	348,000	-	30,119,100	29,344,721	52,006,999
GRAND TOTAL	$889,639,300	$ -	$889,639,300	$85,613,600	$ -	$975,252,900	$963,160,338	$908,340,448

Note: Expenditures for 1999-2000 have been reclassified to conform with the current year's presentation.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	AGRICULTURE AND FORESTRY		
EC 2000-614	FRANCOPHONE AFFAIRS		
	Professional and contract services		$ 153,600
	To provide funding for implementation of the French Language Services Act. The expenditure was to be offset 100 percent by federal revenue under the terms of the Canada-Prince Edward Island General Agreement on the Promotion of Official Languages.		
EC 2000-652	NATURAL RESOURCES		
	Equipment	$ 12,000	
	Professional and contract services	60,000	
	Salaries	66,700	138,700
	To provide funding required to proceed with a Corporate Land Use Inventory Project. The expenditure was to be offset 100 percent by revenue from Ducks Unlimited and from the Special Projects Community Development Fund.		
EC 2000-653	NATURAL RESOURCES		
	Grants		2,600,000
	To provide funding for the Agriculture and Environmental Resource Conservation Program. The expenditure was to be partially offset by $1,000,000 in revenue from the Special Projects Sustainable Resource Support Fund.		
EC 2001-109	CORPORATE AND FINANCIAL SERVICES		
	Grants	$ 193,700	
	Grants	200,000	
	Grants	1,278,900	
	MARKET AND INDUSTRY DEVELOPMENT		
	Grants	150,000	
	PLANT HEALTH AND REGULATORY SERVICES		
	Professional and contract services	155,000	1,977,600

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	To provide funding to cover safety net funding requirements in the Agriculture sector, including a Seed Potato Incentive Program, Harvest Virus Testing Program, Processing Broccoli and Cauliflower Production Program, Canadian Farm Income Program and the Canada-Prince Edward Island Framework Agreement on Agricultural Risk Management. The expenditure was to be partially offset by $511,300 in federal revenue.		
EC 2001-122	PLANT HEALTH AND REGULATORY SERVICES		
	Professional and contract services	$ 664,000	
	Grants	10,000,000	$10,664,000
	To provide funding to cover program and operational costs incurred to address the potato wart issue.		
EC 2001-187	PLANT HEALTH AND REGULATORY SERVICES		
	Grants		13,600,000
	To provide funding for a Potato Diversion Program. The expenditure was to be offset 100 percent by federal revenue under the terms of the Canada-Prince Edward Island Agreement Providing Assistance to Potato Growers.		
	Total		$29,133,900
	PEI GRAIN ELEVATORS CORPORATION		
EC 2001-110	Grants		$ 151,300
	To cover the operating deficit of the PEI Grain Elevators Corporation for the year ending July 31, 2000.		
	ATTORNEY GENERAL		
EC 2001-151	LEGAL AND JUDICIAL SERVICES		
	Salaries	$ 141,100	
	Travel	13,100	
	Professional and contract services	110,300	$ 264,500
	To provide additional funding required to cover excess expenditures of the Office of the Attorney General.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	COMMUNITY AND CULTURAL AFFAIRS		
EC 2000-412	PLANNING AND INSPECTION SERVICES		
	Salaries		$ 45,700
	To provide funding for the transfer of a position from the Department of Development and Technology. The expenditure was to be offset 100 percent by sequestration of funds originally budgeted in the Department of Development and Technology.		
EC 2001-63	PLANNING AND INSPECTION SERVICES		
	Administration	$ 100	
	Equipment	22,300	
	Travel	400	
	PROVINCIAL LIBRARIES AND PUBLIC ARCHIVES		
	Administration	2,300	
	Equipment	2,500	
	Materials, supplies and services	60,000	
	Travel	200	87,800
	To provide funding to cover the costs of new Access PEI sites.		
EC 2001-123	PLANNING AND INSPECTION SERVICES		
	Grants	$ 686,600	
	Administration	1,000	
	Salaries	14,500	702,100
	To provide funding to cover expenditures and related program costs incurred under the Disaster Financial Relief Program. The expenditure was to be partially offset by $419,200 in federal revenue under the terms of the Federal Disaster Financial Assistance Arrangement.		
EC 2001-153	PLANNING AND INSPECTION SERVICES		
	Salaries	$ 75,900	
	Professional and contract services	105,900	
	Administration	54,300	
	Equipment	348,100	
	Materials, supplies and services	90,000	
	Salaries	55,700	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	POLICY AND ADMINISTRATION		
	Administration	$ 117,600	
	Equipment	34,600	
	Professional and contract services	148,100	
	PEI MUSEUM AND HERITAGE FOUNDATION		
	Salaries	131,000	$ 1,161,200
	To provide additional funding required to cover excess expenditures of the Department of Community and Cultural Affairs. The expenditure was to be partially offset by $165,900 in federal revenue under the terms of the Canada-Prince Edward Island Agreement on the Promotion of Official Languages and the Federal-Provincial Maintenance Enforcement Agreement.		
EC 2001-154	POLICY AND ADMINISTRATION		
	Grants		150,000
	To provide funding to cover an additional grant to the Fathers of Confederation Memorial Trust.		
	Total		$ 2,146,800
	DEVELOPMENT AND TECHNOLOGY		
EC 2000-655	REGIONAL ECONOMIC DEVELOPMENT AGREEMENT		
	Grants		$ 2,600,700
	To fund expenditures under the Regional Economic Development Agreement. The expenditure was to be offset 100 percent by revenue from the Special Projects Development Fund and by federal revenue under the terms of the Regional Economic Development Agreement.		
EC 2000-656	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
	Grants		802,100
	To provide funding for projects under the Community Development Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2001-64	COMMUNITY AND LABOUR MARKET DEVELOPMENT		
	Grants		$ 132,000
	To provide funding for projects under the Community Development Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Community Development Fund.		
EC 2001-65	ACCESS PEI		
	Administration	$ 37,100	
	Equipment	110,400	
	Materials, supplies and services	21,800	
	Salaries	7,700	
	Travel	1,700	178,700
	To cover costs of new Access PEI sites in Stratford, Crapaud and North Rustico.		
	Total		$ 3,713,500
	PEI BUSINESS DEVELOPMENT		
EC 2000-654	PROGRAMS		
	Strategic Infrastructure Assistance	$ 4,700,000	
	Small Business Support	2,000,000	$ 6,700,000
	To provide funding for business development programs. The expenditure was to be offset 100 percent by revenue from the Special Projects Development Fund.		
EC 2001-67	CORPORATION MANAGEMENT		
	Equipment	$ 10,900	
	Administration	5,500	
	Materials, supplies and services	500	
	Salaries	159,100	
	Travel	22,000	198,000
	To provide additional funding to the Marketing Advisory Services Division.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2001-95	PROGRAMS		
	Strategic Infrastructure Assistance		$ 2,000,000
	To provide infrastructure funding to enable development in private sector operations.		
EC 2001-152	TECHNOLOGY PEI		
	Grants		396,200
	To cover costs of design and primary site preparation of the Atlantic Technology Centre. The expenditure was to be offset 100 percent by revenue from the Special Projects Development Fund.		
EC 2001-440	DEVELOPMENT ASSISTANCE		
	Debt	$ 5,582,600	
	Grants	328,000	5,910,600
	To fund provisions for losses.		
	Total		$15,204,800
	EMPLOYMENT DEVELOPMENT AGENCY		
EC 2000-413	JOB CREATION AND PLACEMENT		
	Grants	$ 800,000	
	JOBS FOR YOUTH		
	Grants	74,500	
	Salaries	64,300	$ 938,800
	To provide funding to meet job creation project placements.		
EC 2000-553	JOB CREATION AND PLACEMENT		
	Grants	$ 1,269,900	
	Professional and contract services	160,000	1,429,900
	To provide funding to meet job creation project placements.		
	Total		$ 2,368,700

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
	EDUCATION		
EC 2000-532	ENGLISH PROGRAMS		
	Salaries	$ 44,000	
	Grants	61,100	
	FRENCH PROGRAMS		
	Salaries	27,700	$ 132,800
	To provide additional funding required for the SchoolNet Youth Employment Initiative and the SchoolNet Grassroots Initiative. The expenditure was to be offset 100 percent by federal revenue under the terms of various agreements with Industry Canada.		
EC 2000-657	FINANCE AND SCHOOL BOARD OPERATIONS		
	Equipment	$ 100,000	
	Salaries	473,800	573,800
	To provide funding for a School Computer Replacement Program and to cover costs of the Technology Mentor Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Education Stabilization Fund.		
EC 2001-26	FINANCE AND SCHOOL BOARD OPERATIONS		
	Salaries		150,000
	To provide funding to cover costs of a User Support Specialist Internship Project. The expenditure was to be offset 100 percent by revenue from the Special Projects Education Stabilization Fund.		
EC 2001-124	FINANCE AND SCHOOL BOARD OPERATIONS		
	Administration	$ 1,410,300	
	Maintenance	1,200,000	2,610,300
	To provide funding to cover the accumulated deficits of the school boards for the year ending June 30, 2000, and to cover anticipated increases in fuel costs for the current fiscal year.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2001-135	FRENCH PROGRAMS		
	Grants	$ 96,000	
	FINANCE AND SCHOOL BOARD OPERATIONS		
	School construction and capital repair	525,000	$ 621,000
	To provide funding for the 2000/2001construction costs of the new French language school in Summerside, and for the French First Language Pilot Program. The expenditure was to be offset 100 percent by federal revenue under the terms of various agreements with Heritage Canada.		
EC 2001-136	PUBLIC EDUCATION		
	Administration	$ 3,000	
	Materials, supplies and services	52,700	
	Professional and contract services	6,900	
	Salaries	87,300	
	Travel	4,000	
	Grants	1,600,000	1,753,900
	To finance the first year of the Public Kindergarten Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Education Stabilization Fund.		
EC 2001-155	CONTINUING EDUCATION AND TRAINING		
	Grants		134,500
	To provide funding to the Holland College Foundation for student bursaries, and to provide a maintenance grant to UPEI.		
EC 2001-325	CONTINUING EDUCATION AND TRAINING		
	Grants		556,600
	To provide funding to Holland College for training to EI eligible clients. The expenditure was to be offset 100 percent by federal revenue under the terms of the Labour Market Development Agreement.		
	Total		$ 6,532,900

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	FISHERIES, AQUACULTURE AND ENVIRONMENT		
EC 2000-658	WATER RESOURCES		
	Grants		$ 213,500
	To provide funding for the Environmental and Natural Resource Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Sustainable Resource Support Fund.		
EC 2001-137	WATER RESOURCES		
	Grants		300,000
	To provide funding to cover the provincial contribution to the Summerside West End Odour Project.		
	Total		$ 513,500
	HEALTH AND SOCIAL SERVICES		
EC 2000-659	REGIONALLY DELIVERED SERVICES		
	Western Hospital	$ 42,100	
	Community Hospital	42,100	
	Stewart Memorial Hospital	40,000	
	Prince County Hospital	257,500	
	Queen Elizabeth Hospital	324,400	
	Kings County Memorial Hospital	73,900	
	Souris Hospital	96,200	
	Grants	39,200	
	CORPORATE SERVICES		
	Materials, supplies and services	11,900	
	Salaries	48,400	
	Travel	7,900	
	Grants	190,500	$ 1,174,100
	To provide funding to cover costs associated with a Nursing Recruitment and Retention Strategy. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Care Stabilization Fund.		

ORDER-IN-COUNCIL	**LIST OF SPECIAL WARRANTS**		
EC 2000-660	PUBLIC HEALTH AND EVALUATION SERVICES		
	Grants		$ 165,300
	To provide funding to cover estimated costs associated with projects under the Health Research Program. The expenditure was to be offset 100 percent by revenue from the Special Projects Health Research Fund.		
EC 2001-157	REGIONALLY DELIVERED SERVICES		
	Western Hospital	$ 52,200	
	Community Hospital	132,600	
	Stewart Memorial Hospital	44,900	
	Prince County Hospital	772,800	
	Queen Elizabeth Hospital	1,883,300	
	Kings County Memorial Hospital	84,000	
	Souris Hospital	126,600	
	Grants	3,699,300	
	MEDICAL SERVICES		
	Professional and contract services	2,088,100	8,883,800
	To provide funding to cover various operating expenditures, including welfare assistance rate adjustments, new physician positions, nursing recruitment and retention, physician services, and regionally delivered health services. The expenditure was to be partially offset by $1,626,100 in revenue from the Special Projects Health Care Stabilization Fund.		
	Total		$10,223,200
	LEGISLATIVE ASSEMBLY		
EC 2001-66	ELECTIONS		
	Administration	$ 12,000	
	Equipment	2,000	
	Materials, supplies and services	24,000	
	Professional and contract services	674,000	
	Travel	4,000	$ 716,000
	To provide funding to cover expenditures pertaining to the April 17, 2000 general election.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
EC 2001-158	ELECTIONS		
	Professional and contract services		$ 35,000
	To provide funding to cover expenditures pertaining to the February 26, 2001 by-election for Morell-Fortune Bay.		
	Total		$ 751,000
	PROVINCIAL TREASURY		
EC 2000-661	TECHNOLOGY SUPPORT		
	Administration	$ 10,900	
	Materials, supplies and services	2,400	
	Professional and contract services	3,200	
	Salaries	110,900	
	Travel	22,100	$ 149,500
	To provide funding required for costs of the Technology Support Division. The expenditure was to be partially offset by the sequestration of $43,000 originally budgeted in the Department of Fisheries, Aquaculture and Environment.		
	GENERAL GOVERNMENT		
EC 2001-156	SALARY NEGOTIATIONS		
	Salaries		$ 1,300,100
	To cover anticipated costs of salary negotiations.		
	EMPLOYEE BENEFITS		
EC 2001-675	EMPLOYEES' FUTURE BENEFITS		
	Workers Compensation Board Benefits	$ 1,130,800	
	Supplementary Benefits	1,213,300	
	Retirement Pay	3,149,000	$ 5,493,100
	To cover excess expenditures of Employee Benefits.		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	TOURISM PEI		
EC 2001-159	TOURISM DEVELOPMENT		
	Grants	$ 163,100	
	PARKS		
	Salaries	191,200	
	Materials, supplies and services	15,400	
	TOURISM MARKETING		
	Salaries	31,800	$ 401,500
	To fund additional salaries to provide French language and other services. The expenditure was to be partially offset by federal revenues of $97,000 under the terms of the Canada-Prince Edward Island General Agreement on the Promotion of Official Languages and an increase in revenue of $199,600 from Provincial Parks operations.		
	TRANSPORTATION AND PUBLIC WORKS		
EC 2001-68	PUBLIC WORKS OPERATIONS		
	Administration		$ 5,900
	To provide funding to cover rental costs for a new Access PEI site in Crapaud.		
EC 2001-160	PUBLIC WORKS OPERATIONS		
	Administration		1,845,000
	To provide funding to pay out an existing debenture on the Smallman Building in Summerside and related maintenance costs.		
EC 2001-161	HIGHWAY MAINTENANCE OPERATIONS		
	Administration	$ 50,500	
	Salaries	1,469,300	
	Travel	263,200	
	Materials, supplies and services	1,989,800	
	Professional and contract services	720,600	
	Equipment	21,100	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	PUBLIC WORKS OPERATIONS		
	Materials, supplies and services	$ 200,000	
	Debt	150,100	
	PLANNING AND DEVELOPMENT AND BUILDING CONSTRUCTION		
	Professional and contract services	201,800	$ 5,066,400
	To provide additional funding required to cover excess expenditures of the Department of Transportation and Public Works.		
	Total		$ 6,917,300
	TRANSPORTATION AND PUBLIC WORKS - CAPITAL		
EC 2001-162	HIGHWAYS		
	Development costs		$ 348,000
	To cover unfunded costs of additional highway construction projects.		